

# Governance Committee

Monday, 4th October, 2021  
at 5.00 pm

## PLEASE NOTE TIME OF MEETING

This meeting is open to the public

### Members of the Committee

Councillor Fuller (Chair)  
Councillor Bunday  
Councillor D Galton  
Councillor Leggett  
Councillor Magee  
Councillor J Payne  
Councillor Shields

### 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 2021/2022**

<b>2021</b>	<b>2022</b>
14 June	14 February
26 July	25 April
4 October	
16 November	
13 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 26 July 2021 and to deal with any matters arising.

### 5 **FREEDOM OF INFORMATION, DATA PROTECTION & REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2020-21** (Pages 3 - 14)

Report of the Service Director: Legal and Business Operations detailing the statistical information for the financial year 2020-21 with regard to information governance.

### 6 **ANNUAL GOVERNANCE STATEMENT 2020-21** (Pages 15 - 34)

Report of the Executive Director Finance & Commercialisation and Section 151 Officer seeking to review and approve the draft Annual Governance Statement 2020-21

### 7 **ANNUAL REPORT ON THE MEMBERS' CODE OF CONDUCT** (Pages 35 - 40)

Report of the Service Director: Legal & Business Operations detailing the Annual Report on Members' Code of Conduct

### 8 **EXTERNAL AUDIT - 2020/21 AUDIT RESULTS REPORT** (Pages 41 - 94)

Report of the External Auditor summarising the findings from the 2020/21 Audit which includes the Letter of Representation.

### 9 **STATEMENT OF ACCOUNTS 2020/21** (Pages 95 - 242)

Report of the Executive Director for Finance, Commercialisation & S151 Officer seeking approval of the Statement of Accounts 2020/21 and changes made to the draft accounts identified during the audit.

Friday, 24 September 2021

Service Director, Legal & Governance

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GOVERNANCE COMMITTEE  
MINUTES OF THE MEETING HELD ON 26 JULY 2021

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Present: Councillors Bunday, Fuller (Chair), D Galton, Magee, Shields, J Payne and Leggett

1. **ELECTION OF VICE-CHAIR**

**RESOLVED** that Councillor D Galton be appointed as Vice-Chair for the 2021/22 Municipal Year.

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

Councillor Shields declared a personal interest, as a previous employee, regarding any pension scheme discussions for items on the agenda, but he continued to take part in all discussions at the meeting.

3. **STATEMENT FROM THE CHAIR**

The Chair noted that since the beginning of the current municipal year, all Committee members were new to the Governance Committee and he stated that the Schedule of Reports to be submitted to the Committee would be reviewed over forthcoming months.

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

**RESOLVED:** that the minutes for the Committee meeting on 19 April 2021 be approved and signed as a correct record.

5. **WORKFORCE DATA AND HR QUARTERLY STATISTICS**

The Committee received and noted the report of the Service Director, Human Resources and Organisational Development detailing workforce data and quarterly statistics relating to employment data.

The Committee particularly noted the downward trend of sickness levels (7.43 days per employee) which was below the sector average (8 days). An enquiry was made regarding how many staff were on long term sick and this was subsequently reported as being 58 employees (1.6% of the workforce) and it was noted that all these staff were being overseen by HR Business Partners with the relevant manager to have a return to work plan. This figure included planned absence such as major operations as well as unanticipated illness.

It was agreed that this report could, in future, become an annual report and therefore the next report would be due at the July 2022 meeting.

6. **PROJECTS AND PROGRAMMES SIX MONTHLY REPORT**

The Committee received and noted the report of the Deputy Chief Executive outlining an update on key projects and programmes as detailed in the Corporate Plan 2020-25. It was noted that future reports would be reflective of the revised 2021-25 Corporate Plan which Council had approved on 21 July 2021.

7. **ANNUAL GOVERNANCE STATEMENT**

The Committee received and noted the report of the Executive Director Finance and Commercialisation seeking to review the draft Annual Governance Statement 2020-21 and to note the status of the 2019-2020 Annual Governance Statement Action Plan.

It was noted that a statement showing the impact of the pandemic on Governance matters would be drafted and inserted into Appendix 2.

8. **DRAFT STATEMENT OF ACCOUNTS 2020-21**

The Committee received and noted the report of the Executive Director Finance and Commercialisation detailing the draft Statement of Accounts 2020-21 and noting that the audited Statement of Accounts 2020-21 would be submitted to the next Governance meeting for approval.

In response to questions seeking further information regarding the Council's Performance Indicators, it was noted that Committee Members could submit their queries separately to the Financial Planning and Management Manager, outside the meeting, and they would receive an individual response.

9. **ANNUAL INTERNAL AUDIT OPINION 2020-21**

The Committee received and noted the report of the Chief Internal Auditor detailing the Annual Internal Audit Opinion 2020-21 and the service action plans.

The Committee noted that the level of "limited" reviews had decreased from the previous year which indicated that improvements were continuing and the effectiveness of the internal control environment was improving, despite the difficult year with the pandemic.

10. **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2020/21**

The Committee considered and noted the report of the Director of Finance and Commercialisation detailing a review of the Prudential Limits and Treasury Management Outturn 2020/21.

**RESOLVED:**

- (i) That the Treasury Management activities for 2020/21 and the outturn on the Prudential Indicators be noted;
- (ii) That the continued proactive approach to treasury management which led to reductions in borrowing costs and safeguarding investment income during the year be noted; and
- (iii) That delegated authority continue to be given to the S151 officer to make any future changes which benefitted the authority and to report back at the next treasury update.

11. **2020/21 EXTERNAL AUDIT PLAN**

The Committee received and noted the report of the External Auditor detailing the 2020/21 Audit Plan.



# Agenda Item 5

<b>DECISION-MAKER:</b>		GOVERNANCE COMMITTEE	
<b>SUBJECT:</b>		FREEDOM OF INFORMATION, DATA PROTECTION & REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2020-21	
<b>DATE OF DECISION:</b>		4 <sup>th</sup> October 2021	
<b>REPORT OF:</b>		Service Director: Legal and Business Operations	
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	CHRIS THORNTON, Data Protection Officer	<b>Tel:</b> 023 8083 2627
	<b>E-mail:</b>	chris.thornton@southampton.gov.uk	
<b>Director</b>	<b>Name:</b>	MIKE HARRIS, Deputy Chief Executive	<b>Tel:</b> 023 8083 2882
	<b>E-mail:</b>	Mike.harris@southampton.gov.uk	
<b>STATEMENT OF CONFIDENTIALITY</b>			
None			
<b>BRIEF SUMMARY</b>			
A report detailing the statistical information for the financial year 2020-21 with regard to information governance. This report details statistical information on requests received under the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 (EIR), the UK General Data Protection Regulation (GDPR), and the Council's activity under the Regulation of Investigatory Powers Act 2000 (RIPA).			
<b>RECOMMENDATIONS:</b>			
	(i)	To note and comment on the update of the statistical information for the year 1 <sup>st</sup> April 2020 – 31 <sup>st</sup> March 2021 relating to: <ul style="list-style-type: none"> <li>• FOIA and associated legislation</li> <li>• GDPR</li> <li>• RIPA 2000</li> </ul>	
<b>REASONS FOR REPORT RECOMMENDATIONS</b>			
1.	To keep Members informed as to the impact of the legislation on the Council and to detail the form and type of information requests received in 2020-21.		
2.	To ensure that Members continue to be aware of the Council's statutory obligations and compliance performance.		
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>			
3.	The alternative to bringing this report before members is to not report the yearly analysis. This was rejected because it is considered to be good governance to report such matters to Members, provides an audit trail to demonstrate to the Information Commissioner that the Council has a robust structure in place to comply with the legislation, and to maintain the profile of information law requirements and resource implication within the organisation.		

**DETAIL (Including consultation carried out)**

4. This report will be published on the Council’s website

**FOIA**

5. FOIA and EIR gives separate rights to request information and environmental information from public authorities. Responses must be issued within 20 working days.

6. Under the FOIA and associated legislation, anybody may request information from a public authority with functions in England, Wales and/or Northern Ireland. Subject to exemptions, the FOIA confers two statutory rights on applicants:  
 (i) The right to be told whether or not the public authority holds that information; and  
 (ii) The right to have that information communicated to them

7. There are two types of exemptions that may apply to requests for information – absolute and qualified.

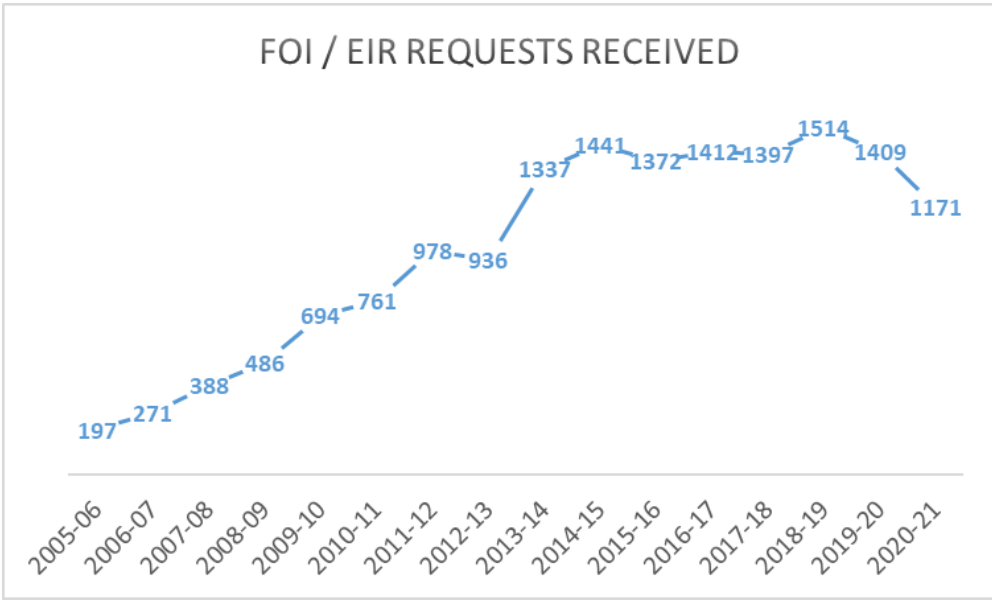
8. Information that falls into a particular exemption category, for example information relating to commercial interests, will have to be disclosed unless it can be successfully argued that the public interest in withholding it is greater than the public interest in releasing it. Such exemptions are known as qualified exemptions.

9. Where information falls within the terms of an absolute exemption, for example, information reasonably accessible by other means or information contained in court records, a public authority may withhold the information without considering any public interest arguments.

10. For 2020-21, the Council received 1171 requests, broken down as follows:

Total Requests	FOI Requests	EIR Requests
1171	974	197

11. This represents a drop in previous years, which can be attributed to the ongoing COVID-19 pandemic. With less projects and activities occurring at a local level, and the public interest focusing on national measures, the Council received a lower number of requests.



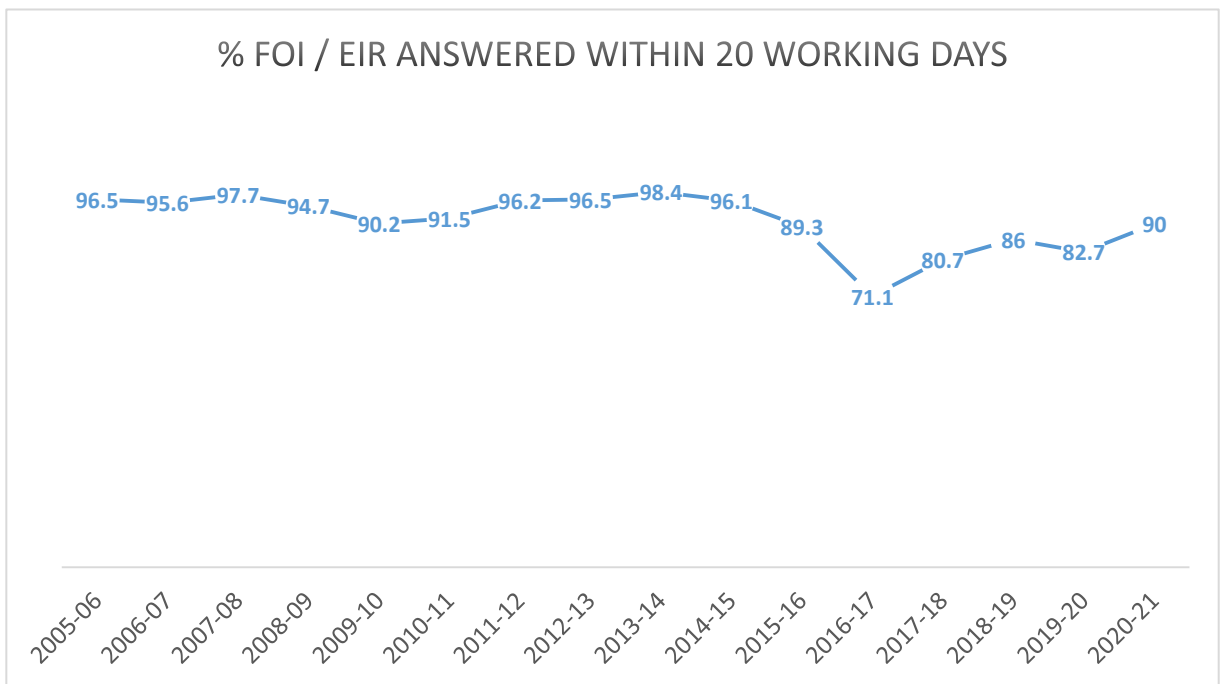
12. The Directorate breakdown of the requests is as follows:

Directorate	No. Rec'd	Responded on time	Av. Days Taken
Communities, Culture, and Homes	302	93%	12
Place	283	88%	14
Finance	160	91%	11
Business Services	156	93%	12
Wellbeing (Children and Learn)	154	86%	15
Wellbeing (Health and Adults)	113	89%	14
Not allocated to a Directorate	3	N/A	N/A
<b>Grand Total</b>	<b>1171</b>	<b>90%</b>	<b>13</b>

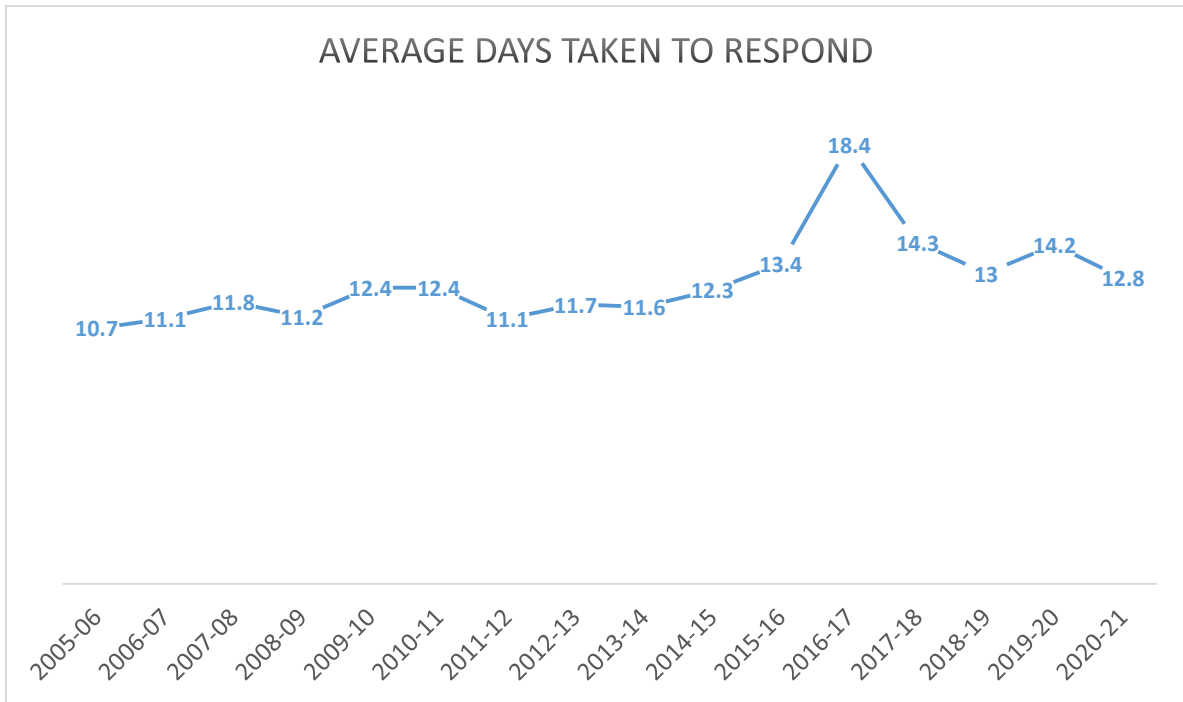
Requests are not allocated to a directorate when it is unclear what information is sought from the request. Clarification is requested, and if this is not received within 3 months, the request is deemed to be lapsed.

13. During the year, 90% of all monitored FOI and EIR requests were responded to within the statutory deadline of 20 working days. This is an increase on the previous year, most likely due to the reduction in requests received.

The Council's target rate for responses is 90%.



14. The reduction in requests has also had an impact on the time taken to respond to requests, with the overall response time decreasing to 13 days on average.



15. Under FOIA, where the cost of responding to the request will exceed the Freedom of Information and Data Protection (Appropriate Limit and Fees) Regulations 2004 (which is currently set at £450 for local authorities), the Council may refuse to comply with it. For 2020-21, the Council issued 58 Refusal Notices on fees grounds, which represents a decrease, with 71 being issued last year.

16. The breakdown of the request outcomes is as follows:

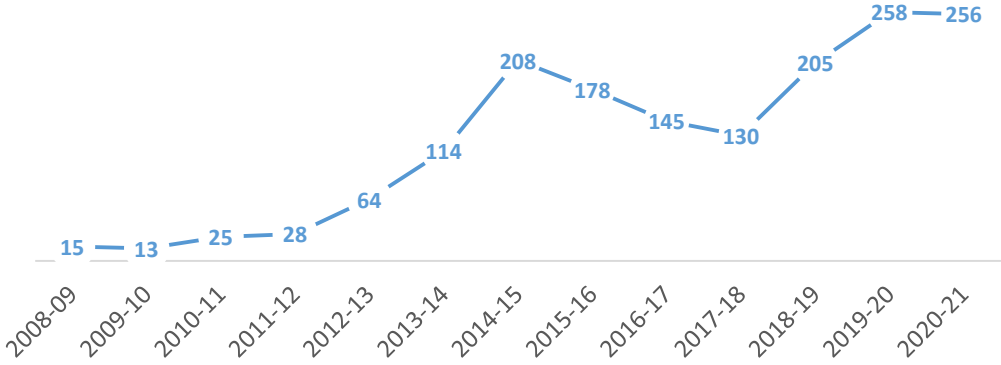
Outcome	No. of Requests
Fully Answered	948
Refused or Part Refused	111
Lapsed or Withdrawn	112

Fully answered requests include those where information is not held, or an exemption has been applied. This would still be classed as being fully answered.  
 Refused or part-refused requests are where the request has been refused in its entirety, or only certain elements have been refused (e.g. on cost grounds)  
 Lapsed or withdrawn requests are where the requester has actively withdrawn their request, or has not come back with clarification when asked within 3 months.

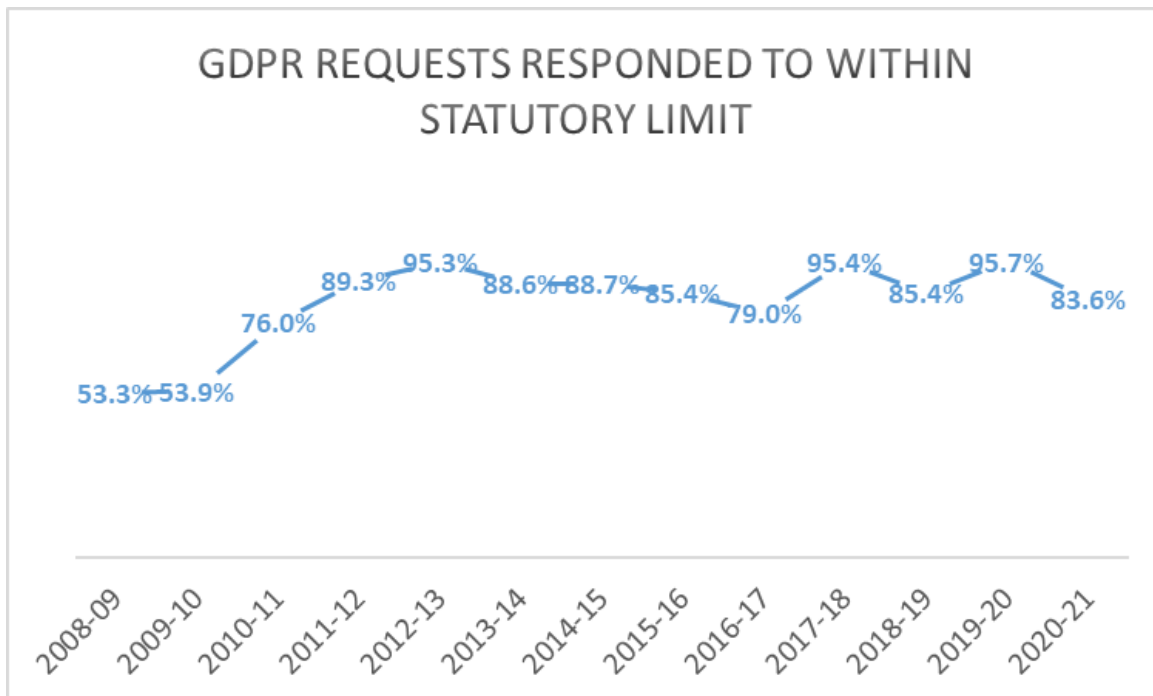
17. 8 individuals requested internal reviews regarding decisions made to withhold, partially withhold information requested, or where they were generally unhappy with how their request was handled.

18. This year, there have been no occasions where an appeal was made to the ICO as a result of the Council’s decision in respect of their internal review.

19.	<p>As with all years, types of requests have been varied and covered every service area of the Council, including budget, HR, council tax and business rates data, schools, highways maintenance, and social services.</p> <p>The top ten request subjects ranked in order of popularity are as follows:</p> <table border="1" data-bbox="231 398 1444 974"> <thead> <tr> <th data-bbox="231 398 1332 452">Service Area</th> <th data-bbox="1332 398 1444 452">No.</th> </tr> </thead> <tbody> <tr> <td data-bbox="231 452 1332 506">Education and learning – Schools</td> <td data-bbox="1332 452 1444 506">57</td> </tr> <tr> <td data-bbox="231 506 1332 560">Housing - Council and community housing</td> <td data-bbox="1332 506 1444 560">49</td> </tr> <tr> <td data-bbox="231 560 1332 613">Business and employment - Business rates</td> <td data-bbox="1332 560 1444 613">45</td> </tr> <tr> <td data-bbox="231 613 1332 667">Housing - Multiple occupancy homes</td> <td data-bbox="1332 613 1444 667">44</td> </tr> <tr> <td data-bbox="231 667 1332 721">Administration and Government - Information communication technology</td> <td data-bbox="1332 667 1444 721">41</td> </tr> <tr> <td data-bbox="231 721 1332 775">Transport and highways – Parking</td> <td data-bbox="1332 721 1444 775">41</td> </tr> <tr> <td data-bbox="231 775 1332 828">Transport and highways – Highways</td> <td data-bbox="1332 775 1444 828">38</td> </tr> <tr> <td data-bbox="231 828 1332 882">Transport and highways – Cycling</td> <td data-bbox="1332 828 1444 882">31</td> </tr> <tr> <td data-bbox="231 882 1332 936">Administration and Government - Finance - Accounting</td> <td data-bbox="1332 882 1444 936">30</td> </tr> <tr> <td data-bbox="231 936 1332 974">Housing - Homelessness and prevention</td> <td data-bbox="1332 936 1444 974">28</td> </tr> </tbody> </table>	Service Area	No.	Education and learning – Schools	57	Housing - Council and community housing	49	Business and employment - Business rates	45	Housing - Multiple occupancy homes	44	Administration and Government - Information communication technology	41	Transport and highways – Parking	41	Transport and highways – Highways	38	Transport and highways – Cycling	31	Administration and Government - Finance - Accounting	30	Housing - Homelessness and prevention	28
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20.	<p>The breakdown of requester type is as follows:</p> <table border="1" data-bbox="242 1070 1452 1299"> <thead> <tr> <th data-bbox="242 1070 853 1124">Requester Category</th> <th data-bbox="853 1070 1452 1124">% of Requests</th> </tr> </thead> <tbody> <tr> <td data-bbox="242 1124 853 1178">Private Citizens</td> <td data-bbox="853 1124 1452 1178">56%</td> </tr> <tr> <td data-bbox="242 1178 853 1232">Companies / Businesses</td> <td data-bbox="853 1178 1452 1232">23%</td> </tr> <tr> <td data-bbox="242 1232 853 1285">Media</td> <td data-bbox="853 1232 1452 1285">9%</td> </tr> <tr> <td data-bbox="242 1285 853 1299">Remainder</td> <td data-bbox="853 1285 1452 1299">12%</td> </tr> </tbody> </table> <p>The remaining requests came from a combination of charities, students, researchers, lobby groups, MPs / Members and other Councils etc.</p>	Requester Category	% of Requests	Private Citizens	56%	Companies / Businesses	23%	Media	9%	Remainder	12%												
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21.	<p>Previously, Members requested information as to how much time and resources each Service spends on dealing with requests. Research from Parliamentary post-legislative scrutiny of the Act indicates “the best-performing local authorities took between one and six hours for each request”. We can estimate that our time spend on requests is comparable to this, and using the £25 per hour rate that the Act allows us to charge for staff time when refusing requests, we can estimate that each request costs the Council between £25 and £150 to respond on average.</p>																						
22.	<p>As Corporate Legal accurately time record we are able to detail how much time it takes to log, monitor, and give advice on requests. For 2020-21, the average time taken per request was just over 1 hour. Most requests (around 77%) take around half an hour to action within the Corporate Legal Team but, where detailed exemptions and redactions are needed, this can increase time taken on a single request for very complex cases. For example, the Corporate Legal time spent just over 26 hours on one single request in 2020-21. The average therefore predominantly represents the time taken for detailed application of legal tests to requests where the Council seeks to withhold certain information from release.</p>																						

23.	It should be stressed that this figure does not include the time taken for Business Support or the service areas to locate, collate, and send out the information requested and the Council does not have a mechanism for capturing that resource cost (which comprises the bulk of any cost to the Council).																												
24.	In the Corporate Legal team there are now 3 FTE member of staff dedicated to providing advice and ensuring compliance with information law. Other members of Legal Services and an innovative intern scheme with local and regional universities support this function when their capacity allows it.																												
<b>GENERAL DATA PROTECTION REGULATION</b>																													
25.	The GDPR gives individuals the right to know what information is held about them, along with other rights, and provides a framework to ensure that personal information is handled properly.																												
26.	<p>Under the GDPR, an individual is entitled to access personal data held by an organisation, of which that individual is the data subject. Such requests for information are known as subject access requests. Other requests available under the GDPR are:</p> <ul style="list-style-type: none"> <li>• Rectification</li> <li>• Erasure</li> <li>• Restriction</li> <li>• Object</li> </ul> <p>The Council has to respond to such requests within one calendar month.</p>																												
27.	<p>For the year 2020-21, the Council received 256 rights requests, broken down as follows:</p> <table border="1" data-bbox="245 1193 1457 1424"> <thead> <tr> <th>Request Type</th> <th>No. Received</th> </tr> </thead> <tbody> <tr> <td>Subject Access</td> <td>243</td> </tr> <tr> <td>Erasure</td> <td>9</td> </tr> <tr> <td>Rectification</td> <td>3</td> </tr> <tr> <td>Objection</td> <td>1</td> </tr> </tbody> </table>	Request Type	No. Received	Subject Access	243	Erasure	9	Rectification	3	Objection	1																		
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Rectification	3																												
Objection	1																												
28.	<p>This stops a trend of increasing numbers of requests since the introduction of GDPR, however this decrease can be attributed to the COVID-19 pandemic.</p> <div data-bbox="304 1514 1358 2022"> <p style="text-align: center;">NO. OF SUBJECT RIGHTS REQUESTS</p>  <table border="1" data-bbox="325 1644 1331 2007"> <caption>NO. OF SUBJECT RIGHTS REQUESTS</caption> <thead> <tr> <th>Year</th> <th>No. of Requests</th> </tr> </thead> <tbody> <tr><td>2008-09</td><td>15</td></tr> <tr><td>2009-10</td><td>13</td></tr> <tr><td>2010-11</td><td>25</td></tr> <tr><td>2011-12</td><td>28</td></tr> <tr><td>2012-13</td><td>64</td></tr> <tr><td>2013-14</td><td>114</td></tr> <tr><td>2014-15</td><td>208</td></tr> <tr><td>2015-16</td><td>178</td></tr> <tr><td>2016-17</td><td>145</td></tr> <tr><td>2017-18</td><td>130</td></tr> <tr><td>2018-19</td><td>205</td></tr> <tr><td>2019-20</td><td>258</td></tr> <tr><td>2020-21</td><td>256</td></tr> </tbody> </table> </div>	Year	No. of Requests	2008-09	15	2009-10	13	2010-11	25	2011-12	28	2012-13	64	2013-14	114	2014-15	208	2015-16	178	2016-17	145	2017-18	130	2018-19	205	2019-20	258	2020-21	256
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29. 84% of the requests were responded within the statutory timescales compared with 96% last year. The Council's target is 90% compliance.



This reduction can be attributed to the COVID-19 pandemic, and whilst FOI saw a reduction in requests, the volume of GDPR requests has largely remained the same.

As most of the requests involve social care data, and the service areas holding this information were most affected by the pandemic.

30. The Directorate breakdown is as follows:

	No. Rec'd	Responded on time	Av. Days Taken
Wellbeing (Children and Learn)	154	85%	46
Communities, Culture, and Homes	32	83%	31
Wellbeing (Health and Adults)	29	80%	33
Business Services	19	84%	31
Finance	13	81%	39
Place	3	100%	26
*On hold - Awaiting Allocation	6	N/A	N/A
<b>Grand Total</b>	<b>256</b>	<b>84%</b>	<b>40</b>

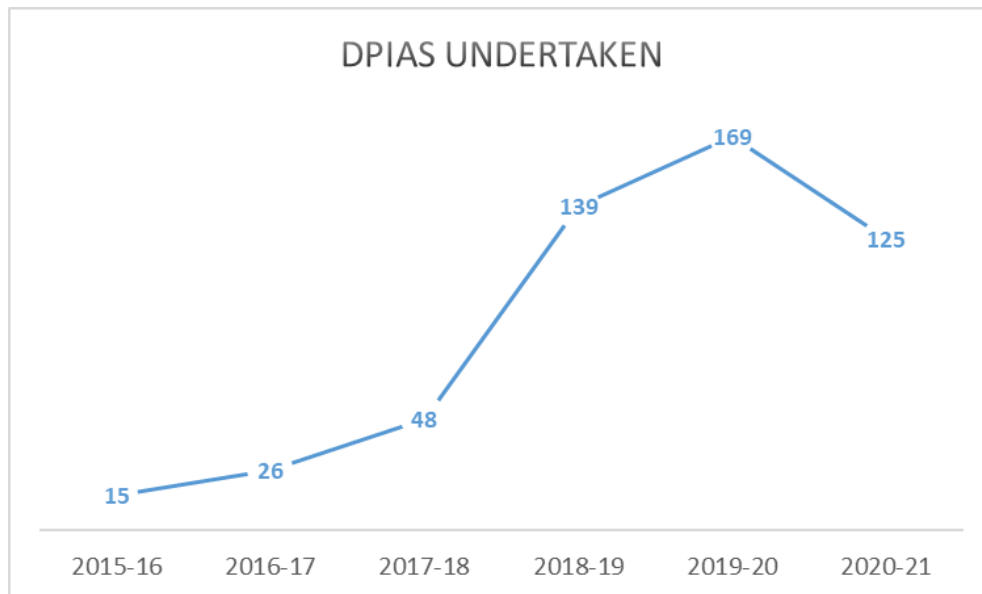
Requests are not allocated to a directorate when it is not clear what information is sought from the request. Clarification is requested, and if this is not received within 3 months, the request is deemed to be lapsed.

	It should be noted that the GDPR allows for an extension of the statutory timeframe for compliance in certain circumstances, as such, not all requests over one calendar month will be deemed to be late.								
31.	Whilst there has been a drop in compliance levels relating to Subject Access Requests, the Data Protection Officer is satisfied that this is not a cause for concern. Indeed, due to the fact that that majority of the information under these requests relates to social care, which is the service area most affected by the pandemic, the Council's ability to maintain a high level of compliance during this period should be commended.								
32.	11 individuals requested internal reviews regarding decisions made to withhold, partially withhold information requested, or where they were generally unhappy with how their request was handled.								
33.	There was 1 occasion where the ICO contacted the Council in light of concerns they had about how a request was handled.								
34.	Sometimes there is a requirement to disclose personal data which might otherwise be in breach of the GDPR. Where an exemption from the non-disclosure provisions applies, such disclosure is not in breach of the GDPR. Examples of exemptions include crime and taxation and disclosures required by law or made in connection with legal proceedings. Such requests are typically made to the Council by regulatory authorities such as the police, the Department of Work and Pensions and so on as part of their investigations.								
35.	For the year 2020-21 the Council received 331 requests for data from such third party organisations compared to 291 in the previous year. The top three requester types are as follows:  <table border="1" data-bbox="231 1176 753 1339"> <thead> <tr> <th>Type</th> <th>Requests</th> </tr> </thead> <tbody> <tr> <td>Police</td> <td>211</td> </tr> <tr> <td>Local Authority</td> <td>65</td> </tr> <tr> <td>Government Agency</td> <td>33</td> </tr> </tbody> </table>	Type	Requests	Police	211	Local Authority	65	Government Agency	33
Type	Requests								
Police	211								
Local Authority	65								
Government Agency	33								
36.	In addition to these requests, the CCTV control room (City Watch) and Licensing Team received 613 and 158 third party requests respectively (the majority of the Licensing requests were for footage from the vehicle Taxi Cameras). These requests are regulated by information sharing agreements, which removes the requirement to have each one authorised by Corporate Legal.								
	<b>DATA SECURITY INCIDENTS</b>								
37.	During 2020-21, 209 data security incidents were reported to the Corporate Legal team. 72% of these were determined to be actual data breaches upon investigation, with the most common cause (45% of incidents) being data sent electronically to incorrect recipients.								
38.	The Council records the "severity" of the incidents reported, determined by a number of factors, including the nature of the information involved, the volume of data, and the possible harm the breach might cause to individuals involved. Any incident receiving a severity rating over 1 was considered to require a full investigation and remediation report.  For 2020-21, the average severity of incidents determined to be actual breaches remains at 0.7.								



39.	<p>3 of the data breaches were considered sufficiently serious to be reported to the Information Commissioner’s Office. These involved:</p> <ul style="list-style-type: none"> <li>• The disclosure of a third party’s information in a Subject Access Request</li> <li>• The sending of invoices as part of a fraudulent payment incident</li> <li>• Failure to redact an address during court proceedings.</li> </ul>
40.	<p>In all of these, the ICO considered that no further action was necessary as the Council had put into action adequate and robust remediation plans to address the risks to the individual, and ensure that such errors do not reoccur.</p>
	<p><b>NHS TOOLKIT</b></p>
41.	<p>In order to share information with our health partners, the Council has to provide annual assurance as to the standard of its information governance compliance. In the absence of any service information governance lead, the Corporate Legal Team again assumed short-term responsibility for collation of the Toolkit evidence this year, but due to COVID-19, the annual submission deadline of 31<sup>st</sup> March was extended to 30<sup>th</sup> June 2021. The Council was self-assessed at being 100% compliant with the mandatory evidence requirements.</p>
	<p><b>RIPA</b></p>
42.	<p>Under RIPA, the Council as a public authority is permitted to carry out directed surveillance, the use of covert human intelligence sources and to obtain communications data if it is both necessary for the purpose of preventing or detecting crime and/or disorder and the proposed form and manner of the activity is proportionate to the alleged offence.</p>
43.	<p>There were no authorisations made under RIPA in 2020-21.</p>
44.	<p>The Investigatory Powers Commissioner’s Office (formerly the Office of Surveillance Commissioners) carried out its most recent inspection of the Council’s management of covert activities in 2019.</p> <p>In his report of December 2019, The Rt. Hon. Sir Brian Leveson, the Investigatory Powers Commissioner, noted:</p> <p>“(My) observations highlight good practice within (your) organisation and this has clearly resulted largely from a conscientious approach and internal oversight and the provision of regular training by Mr Ivory and Mrs Horspool. Both have been inspected in this regard for many years and are not found wanting”</p>
	<p><b>DATA PROTECTION IMPACT ASSESSMENTS</b></p>
45.	<p>Under Council policy, a Data Protection Impact Assessment (or DPIA) must be carried out for new projects.</p> <p>Carrying out a DPIA enables the Council to identify and address any privacy risks at an early stage, ensure a “privacy by design” approach, and adhere to the accountability principle of the GDPR.</p>

46. In 2020-21, the Council conducted 125 DPIAs, which is a decrease on the previous year.



This decrease can be attributed to the COVID-19 pandemic, which saw less projects being undertaken by the Council.

## RESOURCE IMPLICATIONS

### Capital/Revenue

47. None directly related to this report. The administration of information law within the authority is managed within corporate overheads, but ensuring that the Council performs to an acceptable information governance standard and complies with the new statutory standards imposed by the GDPR and DPA18 places increased pressure on finite and already stretched resources.

### Property/Other

48. None directly related to the report.

## LEGAL IMPLICATIONS

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

49. The statutory obligations relating to information law are detailed in the body of this report.

### Other Legal Implications:

50. None directly related to this report.

## RISK MANAGEMENT IMPLICATIONS

51. The potential impact of the decision in terms of finance, service delivery and reputation is considered to be low. Although the report does highlight potential future pressures on service delivery with the advent of the GDPR, the decision of members in this report is to note the performance of the Council in terms of information governance for 2020-21.

<b>POLICY FRAMEWORK IMPLICATIONS</b>	
52.	The information contained in this report is consistent with and not contrary to the Council's policy framework.

<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	none
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices None</b>	
1.	None

**Documents In Members' Rooms None**

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 None</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.	None

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# Agenda Item 6

<b>DECISION-MAKER:</b>	Governance Committee
<b>SUBJECT:</b>	Annual Governance Statement 2020-21
<b>DATE OF DECISION:</b>	4 <sup>th</sup> October 2021
<b>REPORT OF:</b>	<b>COUNCILLOR HANNIDES CABINET MEMBER FOR FINANCE AND CAPITAL ASSETS</b>

<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title</b>	Executive Director for Finance and Commercialisation and Section 151 Officer	
	<b>Name:</b>	John Harrison	Tel: 023 8083 4897
	<b>E-mail</b>	john.harrison@southampton.gov.uk	
<b>Author:</b>	<b>Title</b>	<b>Risk and Insurance Manager</b>	
	<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>	
<p>The Accounts and Audit Regulations require that the Council develop and publish an Annual Governance Statement ('AGS'). The purpose of the AGS, which is published with the Statement of Accounts ('SoA'), is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required</p> <p>In accordance with CIPFA Guidance, Audit [Governance] Committees should review and approve the final draft of the AGS, in advance of the SoA, prior to the document being presented to the Chief Executive and Leader of the Council for signing.</p>	
<b>RECOMMENDATIONS:</b>	
(i)	To review and approve the draft 2020-21 AGS (Appendix 1);
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
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 AGS.
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.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	

3.	No alternative options have been considered. The development and publication of an AGS is a requirement under the Accounts and Audit Regulations.
<b>DETAIL (Including consultation carried out)</b>	
4.	At the meeting on 26th July 2021, the Governance Committee was 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.
5.	The most significant change to the revised draft 2020-21 AGS is the inclusion of the highlighted section regarding the ‘Impact of the Covid-19 Pandemic on Governance’. The Committee will recall that the previous draft referred to this section needing to be completed, recognising that in accordance with CIPFA guidance, the AGS should be current at the time that it is published. For the same reason the section that makes reference to the Corporate Plan has also been revised to make reference to the 2021-2025 Corporate Plan.
6.	The other updates and amendments, as highlighted, incorporate the comments at the last Governance Committee meeting together with further updates or clarifications received from officers.
7.	The revised draft AGS was reviewed by the Executive Management Board on 1 <sup>st</sup> September 2021. It was also shared with the Chief Executive on 9 <sup>th</sup> September 2021 and with the Leader of the Council on 14 <sup>th</sup> September 2021. This was in recognition that they will be required to sign the final approved version.
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’.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
9.	None
<b><u>Property/Other</u></b>	
10.	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
11.	The Accounts and Audit (England) Regulations 2015, as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 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.
<b><u>Other Legal Implications:</u></b>	
12.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	

13.	Failure to develop and publish an AGS would be non-compliance with the Accounts and Audit Regulations.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
14.	None

<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	Not applicable
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	
1.	Draft Annual Governance Statement 2020-21

**Documents In Members' Rooms**

1.	n/a
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**Equality Impact Assessment**

<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>No</b>
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**Data Protection Impact Assessment**

<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>No</b>
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**Other Background Documents**

**Other Background documents available for inspection at:**

<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/council-democracy/corp-governance/>

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 or local 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.

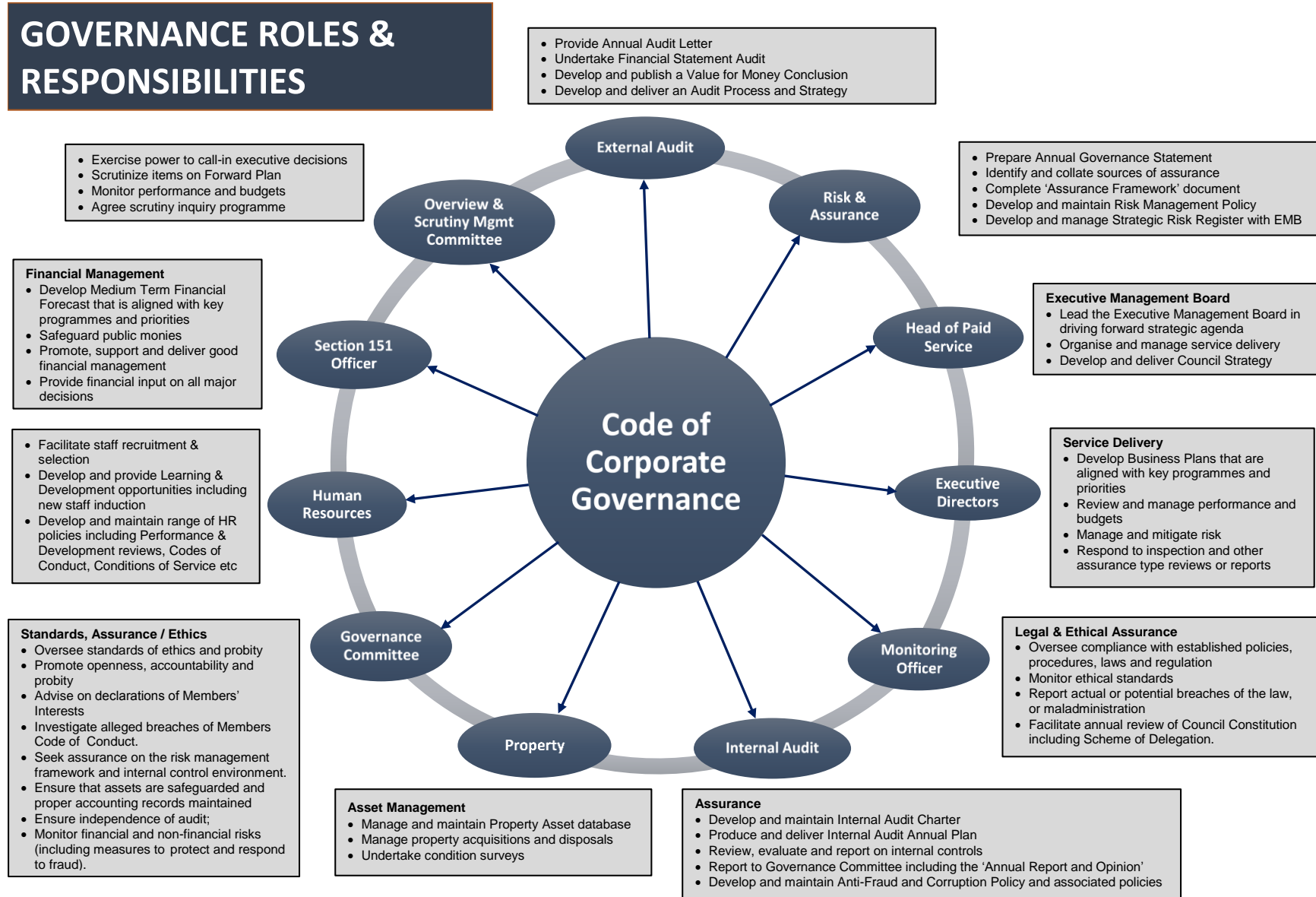
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing 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 2021 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

Responding to the COVID-19 pandemic has been the priority not only for central Government, but also local government over this last year. Southampton City Council has played a critical role in helping to lead the local response and, by necessity, quickly transformed the way in which governance was undertaken to ensure that the authority's statutory obligations and a transparent approach continued to be delivered.

In terms of decision making and democratic activity, at commencement of the first national lockdown it was identified that the usual decision-making processes may become impossible or unlawful to carry out. In March 2020, Council therefore resolved to temporarily suspend all parts of the Constitution that required formal decision making by Elected Members. In order to aid delivery of council functions during the pandemic, and to enable rapid responses to ever changing circumstances and national guidelines, further authority was delegated to the Chief Executive, Executive Directors and the Service Director; Legal and Business Operations, 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. Decisions taken under this route were advised to Full Council at subsequent meetings.

Local authorities were permitted to hold virtual meetings from 4 April 2020, when regulations came into force under the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 (SI 2020/392), made under section 78 of the Coronavirus Act 2020. The council held virtual committee meetings from 19<sup>th</sup> May 2020 utilising Microsoft Teams Live Events technology. These meetings were accessible by members of the public and all public meetings ran in this format for the remainder of the financial year, in accordance with temporary legislation. In addition to holding virtual committees, the council also hosted its schools' admissions appeals process in alternative paper based and virtual formats in accordance with The School Admissions (England) (Coronavirus) (Appeals Arrangements) (Amendment) Regulations 2020 and 2021.

The relevant Coronavirus Act powers only applied to council meetings that took place before 7 May 2021 and thereafter face-to-face meetings have resumed with appropriate Covid Safe precautions in place.

The local City Council and Police and Crime Commissioner elections that were due in May 2020, but were postponed in line with government direction, were held on 6<sup>th</sup> May 2021. It was a combined poll including the Police and Crime Commissioner elections for Hampshire and local city Councillor elections across Southampton. A range of Covid-19 safety measures and precautions were in place and communicated including a campaign to promote the opportunity of postal voting (across traditional and social media channels), mindful of the potential concerns about voting 'in person'.

Following the local elections, the '2020-2025 Southampton City Council Corporate Plan' was revised to articulate the priorities and ambitions of the new political administration. The revised '2021-2025 Corporate Plan' is published on the council website and provides a framework for assessing progress towards the priorities.

## Annual Governance Statement

In response to the imposition of the national lockdown in March 2020, the council enacted its emergency planning structure comprising strategic 'Gold Command', chaired by the Deputy Chief Executive together with an operational 'Silver Command' chaired by the Service Director, Business Development. Each group met to discuss, recommend and agree key operational and service delivery matters including reviewing the both the council's 'Covid Risk Log' and the 'Stop – Start' register, which tracked those services and activities that had to be stopped either due to lockdown restrictions or to enable additional resources to support the delivery of critical services. The frequency of both the 'Gold' and 'Silver' groups was revisited throughout 2020/21 to ensure that it was aligned with, and reflected, the current status of the pandemic in terms of spread of infection and impact on council services. There were also regular meetings between the council's Executive Management Board and Cabinet to provide updates on Covid-19 related issues.

The council's Emergency Preparedness, Resilience and Response Team together with the interim Director of Public Health and other relevant key officers have, and continue to work in close partnership with multi-agency forums and organisations across Southampton, and the Hampshire and Isle of Wight Local Resilience Forum (HIOW LRF) in response to the COVID-19 outbreak. A Southampton COVID-19 Health Protection Board was 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 impact of Covid-19 pandemic 'stress tested' the council during 2020/21 who played a key role in helping to lead the local response in supporting residents and local businesses during these difficult times. A robust budget was set in February 2020/21 which factored in financial resilience and an allowance for potential risks. This, together with a variety of Government funding streams, supported the council during COVID-19 however the ongoing impacts of pandemic remain uncertain, both in terms of service pressures and economic impact. The Finance team continues to work closely with services to ensure that Covid related spend and pressures are captured, and monitoring information is regularly returned to the Ministry of Housing, Communities and Local Government. The council's Medium-Term Financial Forecast is under review, given the uncertainty that exists around both income streams and spending, largely as a result of COVID-19, and will be presented for consideration by Cabinet as part of the preparation for the budget 2022/23.

During 2020/21 staff and Members who were able to work remotely continued to do so in line with Government guidance. During 2020/21, the council was able to support an additional 1,800 members of staff to work from home regularly. Capacity of the remote connection was more than quadrupled and new technology implemented to make it more reliable and increase the range of services available outside of the office. Roll out of Microsoft office 365 and use of 'Teams' was accelerated to support this enhanced capacity, which was a part of existing plans, but which had to be much more quickly implemented than previously anticipated.

The importance of ensuring the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing took even greater prominence in 2020/21. A range of information, tools, support and guidance was provided and also covered issues such as work-life balance, working together and financial wellbeing.

The council also undertook a wide-ranging view of 'how we work', 'where we work' and the 'spaces we work in'. This is intended to use the lessons learned during the pandemic to shape 'how we will work in the future' and how we can positively impact the customer experience and to support wellbeing – physical and mental health. The 'Way We Work Programme' will develop new practices and standards in three workstreams; Technology, Working Spaces and People & Culture. The work is heavily influenced by feedback from staff who have been engaged through surveys and workshops.

Any further 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 2021/22 Annual Governance Statement.

# 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.

As part of the council's 'Leadership and Management' training an Ethical Leadership module was developed in 2020/21 with all managers and leaders encouraged to attend. The module explores the seven principles of public life and values and behaviours that underpin these.

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 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' that 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 applies to contractors, suppliers, partners, agents, intermediaries and service users. The council also has in place an 'Anti-Money Laundering' policy which sets out the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. This policy details the procedures that must be followed (for example reporting of suspicions of money laundering activity) to enable the council and staff to comply with their legal obligations.

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 complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. The council welcomes hearing customers' comments, compliments, and complaints to better understand how they view our services and use these valuable opportunities to learn and improve for the future. There is a Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' published on the council's website which explains how to make a complaint and how it will be dealt with. There is also a separate 'Children's Services Complaint Procedure' which is also published on the council's website. Complaints relating to Members are dealt with under the Members' Code of Conduct.

The council's 'Social Value and Green City Procurement Policy' reflects a commitment to proactively work to ensure that all goods, works and services that it procures are sourced ethically and sustainably;

# Annual Governance Statement

both in the way the council procures and in terms of the standards that the council expects its suppliers, service providers and contractors to meet.

The council also has in place a Modern Slavery and Human Trafficking Statement sets out the Council's current position and future plans to understand all potential modern slavery risks related to its business and to put in place steps that are aimed at ensuring that there is no slavery or human trafficking in its own business and/or in its supply chains.

## 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 provides information to residents, customers and other stakeholders on how they can 'have their say' on various issues using:

- Consultations
- Surveys and research
- 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, A public engagement exercise was undertaken with residents and stakeholders on the draft budget proposals between 16<sup>th</sup> December 2020 and 19<sup>th</sup> January 2021. The aim of this engagement exercise was to:

- Communicate clearly to residents and stakeholders the budget proposals for 2021/22;
- Ensure any resident, business or stakeholder who wished to comment on the proposals had the opportunity to do so, enabling them to raise any impacts the proposals may have; and
- Allow participants to propose alternative suggestions for consideration which they feel could achieve the objectives in a different way.

Southampton City Council, in conjunction with other local public service providers, also undertakes a 'City Survey' every two years to collect resident views on a range of topics. This provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions on how we are doing as a council and as a city. The surveys also include a set of common Local Government Association questions which allows Southampton to be benchmarked against the national average and for trends to be tracked over time. Full results are available on the Southampton Data Observatory: <https://data.southampton.gov.uk/> The latest survey ran between October 2020 and December 2020 and included questions on:

- Opinion on the local area
- Opinion on council and other public services
- Communications and Digital exclusion
- Employment
- City of Culture bid
- Transport
- Wellbeing

In addition, four 'Covid-19 Residents Surveys' were undertaken in 2020 and were intended to provide both the council and other agencies across the city with an understanding of how residents were interpreting national guidance, how the pandemic was impacting residents' lives, and concerns that residents may have had during this time. This feedback was used to support the local response and to aid recovery efforts across the city.

# Annual Governance Statement

The council has in place a 'People's Panel' which now has a membership of over 3,200 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 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. This strategy is being reviewed and a Participation Action plan is being developed to sit underneath the new Southampton Children and Young People's Strategy 2022 – 2027. Elections have also been held for Southampton's own Member of Youth Parliament who is now in place.

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

The Southampton City Council Corporate Plan ('Corporate Plan') sets out how the council will create the environment to achieve the vision of Southampton as a city of opportunity. The Corporate Plan is delivered through detailed business plans, delivering on key priorities and 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.

The '2020-2025 Corporate Plan', that was in place during 2020-2021, was revised following the local elections in May 2021 to articulate the priorities and ambitions of the new political administration. The revised '2021-2025 Corporate Plan' is published on the council website and provides a framework for assessing progress towards those priorities. The vision of Southampton as a city of opportunity will be delivered by five workstreams: 1. Growth, 2. Wellbeing, 3. Our Greener City, 4. Communities, Culture and Heritage and 5. A council that works for and with you.

Progress in respect the commitments, initiatives and priorities is monitored, reviewed and updated on a six-monthly basis. The updated document is reviewed by both the council's Executive Management Board and Cabinet and is then published on the council's website. In addition, progress against the major Programmes and Projects within the Corporate Plan is also presented to the council's Governance Committee every 6 months.

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To achieve the council's priority outcomes employees are expected to demonstrate the council's organisational values. These reflect the importance that the council places on behaviours, and the way that employees engage with customers, partners and colleagues:



There are also other key strategies that reflect the vision and ambition of both the city and wider region including the Southampton City Strategy (2015-2025) which is a partnership strategy that sets out the vision for the whole city. Southampton Connect is responsible for the delivery of the Southampton City Strategy with the vision that Southampton is a city of opportunity where everyone thrives. Southampton Connect is an 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 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 2021 the Solent LEP will develop a new future facing strategy called Solent 2050.

Solent Transport is a sub-regional transport partnership that comprises 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.

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

The council has in place a robust decision-making process that clearly sets out the actions and accountability in terms of who, when and how decisions are taken and where responsibility for decisions making rests. All decision reports are required to be submitted using a standard report template which identifies the 'Decision Maker', the decision or action required, why the report is recommended, alternative options considered together with a 'Detail' (including Consultation carried out) section. The template also includes separate sections detailing any Financial/Resource, Legal, Risk and Policy implications. Where appropriate these comment on how proposals will be paid for, the statutory power



## Annual Governance Statement

to undertake the action and/or relevant legislation that affect the proposals, any significant risks associated with the decision that need to be considered and that confirmation that the proposals are in accordance with the council's approved Policy Framework. Report authors are required to consult with relevant departments as part of the preparation and development of a report. This will always include Democratic Support, Corporate Legal and Finance but may also include Property, IT etc if the proposals within the draft report are relevant to these areas. All decision reports are signed off by the relevant Executive Director and Cabinet Member.

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.

Due to Covid-19 all scrutiny meetings were held remotely with members of the public able to view meetings live via the council's website. To enable public engagement interested residents or groups were invited to submit questions in writing in advance of the committee or panel meeting. At the discretion of the Chair, members of the public or stakeholder groups who have expressed an interest in contributing on a specific agenda item were invited to attend the virtual scrutiny meeting to contribute to the discussion. In addition, scrutiny inquiries continue to 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.

### **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 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 engaged 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 Forecast, the Wellbeing 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, organisational development and business planning, drive positive change and the delivery of agreed outcomes.

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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. New initiatives under this broad umbrella include a specific focus for 2021 onwards on Diversity and Inclusion with priorities set by staff workshops.

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

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. This includes reference to the council's '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. There is also a range of associated guidance documents, templates and other tools to support officers in identifying and managing risk.

A key element of the council's risk management framework is the council's Strategic Risk Register which is developed in consultation with Executive Directors. This document reflects the key strategic risks that have been identified as needing to be managed in order to support the delivery of the council's key initiatives and priorities. The Strategic Risk Register is updated and reviewed by the Executive Management Team on a quarterly basis and 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.

Risk management forms an important and integral part of the council's project management methodology with risk registers having been used extensively in respect of managing and supporting the council's response to Covid-19 and including supporting information decision taking.

Effective financial management is key to managing the delivery of a vast range of council services either directly or through/with others and ultimately improving the quality of life for residents. The council's Medium Term Financial Forecast ('MTFF') 2021/22 – 2024/25 provides a strategic financial framework and a forward looking approach to achieve long term financial sustainability for the council. It is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It also aids robust and methodical planning as it forecasts the council's financial position taking into account known pressures, major issues affecting the council's finances, including external economic influences as well as local priorities and factors.

The MTFF helps the council to respond, in a considered manner, to pressures and changes as a result of internal and external influences. This is particularly important during a period when the council faces considerable pressures and challenges, such as those relating to the Covid-19 pandemic. The MTFF recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management and delivery of services. The approach concentrates on the principles that will provide a strong direction for the medium term. The key objectives of the MTFF are to:

## Annual Governance Statement

- Provide financial parameters within which budget and service planning should take place;
- Ensure that the council sets a balanced and sustainable budget;
- 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 clear alignment between priority and affordability;
- Ensure that the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- 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
- Ensure that the council's long term financial health and viability remain sound.

The MTFP enables integrated service and financial planning over the medium term, using a business planning approach. The resulting Medium Term Financial Model provides the framework within which decisions relating to future service provision can be made.

The Chartered Institute of Public Finance and Accountancy ("CIPFA") has published a new Financial Management Code for authorities to adhere to. The CIPFA Financial Management Code 2019 (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out the standards of financial management for local authorities, based on broad principles. It does not prescribe the financial management processes that local authorities should adopt but requires each authority to demonstrate that its processes satisfy the principles of good financial management. 2020/21 was the 'shadow' year for the implementation of the FM Code with the first year of compliance being 2021/22. Future budget updates to both Cabinet and Council will indicate how the processes adopted by the council ensure compliance with the standards set out in the Code.

As part its preparations for embedding enhanced standards of financial management the council undertook a self-assessment against the new FM Code in order to identify any significant gaps or areas for development. The conclusion of the self-assessment was that the council broadly operates within the expected principles, however a few areas to further strengthen our processes were identified such as ensuring the senior management team (the Executive Management Board) were up to date with the work on financial resilience and how Southampton compares with other council's and that the Financial Procedure Rules were fully up to date. The necessary areas for improvement will also be tabled at the Executive Management Board for discussion and the plan monitored for its implementation.

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. The CFO (the Executive Director for Finance and Commercialisation and Section 151 Officer) is professionally qualified and is a key member of the Executive Management Team and reports directly to the Chief Executive. The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

The council has in place 'Business Plans' at service level that are aligned with the council's priorities and outcomes as set out in the Corporate Plan. The business plans provide an overview of the services being delivered together with the outcomes (and outputs) that are looking to be achieved. The council undertakes an annual business planning and budgeting process with all Service Business plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. An important part of the process is the 'sustainability/challenge' sessions that focus, in particular, on current and future service costs including opportunities for income growth.

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All significant commercial partnership working arrangements also have a range of performance indicators which are used to monitor, 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 throughout the lifecycle of the contract. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose. Contract Management Teams in the Supplier Management Team and the Integrated Commissioning Unit support the council in managing contracts throughout the lifecycle of the contract and provide senior management interfaces between the council and our partnership service providers.

## **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).

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 for Finance and Commercialisation and 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: -

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- 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 comments. The Committee is able to request any director to attend a meeting to discuss the issues.
- 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 2020-21 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 2020/21 show that the level of 'limited reviews' have decreased from the previous year which would indicate that improvements are continuing, and that the effectiveness of the internal control environment is therefore improving. This is a positive indicator despite the overall assurance level of 'limited' that has been attributed to this year.
- The Internal Audit Charter and delivery of the annual Internal Audit plan but noting that the Audit Plan of assignments was reduced compared to the previous year to reflect the level of resource lost during 2020-21 due to the impact of Covid and the temporary redeployment of some audit staff during this period. The reduction was based on a re-evaluation of the risk level of the activity and an assessment of the requirements of the council and its immediate priorities.
- 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 'AGS 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. The self-assessments are completed by individual Heads of Service or Service Directors on behalf of their service areas in order to ensure that the most representative and comprehensive oversight is obtained, with the individual returns being signed off by the relevant Executive Director.
- 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.

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## SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

### 1. Governance Issue

The council's response to the Covid-19 Pandemic has tested both overall organisational resilience as well as the resilience within individual service areas. In respect of the latter it is recognised that, particularly in areas where specialist technical or professional advice is provided, there is reliance on a limited number of key individuals. In part, this is also reflected in the inconsistency in respect of the extent to which succession planning has been formally considered within individual service areas across the council.

**Planned Action:** Heads of Service to work with their 'Human Resources Business Partner' to fully understand the tools available to develop and have in place appropriate service resilience and succession planning arrangements. The activity may be informed by information and data such as re workforce age profile, grading, structures etc. in order to identify key areas, activities or 'pinch points' where focussed attention is required.

In addition, three days of assistance from the Local Government Association is being provided to support the council in terms of gaining an understanding of where the current challenges and opportunities are for talent management and succession planning. Some Heads of Service and Service Managers, Trade Union representatives and HR&OD staff have been interviewed and workshops with groups of employees and managers will be held at the end of September 2021.

**Responsible Officer:** Directorate Management Teams with the support of their respective HR Business Partner

**Target Date for completion:** End Q4 2021-22 (with position reflected on the 21-22 AGS Self-Assessment returns)

### 2. Governance Issue

As part the preparations for embedding the enhanced standards of financial management reflected in new CIPFA Financial Management Code 2019 for 2021-22, the council undertook a self-assessment against the new Code in order to identify whether there were any significant gaps or areas for further development. The conclusion of the self-assessment was that the council broadly operates within the expected principles, however some areas to further strengthen existing processes were identified.

**Planned Action:** The necessary areas for improvement to be tabled at the senior management team (Executive Management Board) for discussion and the plan monitored for its implementation.

**Responsible Officer:** Executive Director for Finance and Commercialisation and Section 151 Officer

**Target date for completion:** End Q3 2021-22

### 3. Governance Issue

It is recognised that as a large complex organisation that delivers over 700 services there is an ongoing challenge to ensure consistency in terms of staff (both new and existing) awareness, understanding and compliance and with key policies, process and procedures.

**Completed Action (End Q1 – 2021):** The 'Performance and Development review' guidance that is published on the intranet now has a link that takes you through to a list of mandatory training (elements of which will vary according to the individuals' role). The list of mandatory training includes information governance, buying for the council, whistleblowing, anti-fraud and corruption etc.

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**Planned Action:** An 'Ethics and Values' training module, which forms part of a new 'Collaborative Leadership Programme', has been developed. This module, which is targeted at all team leaders and managers below senior level, explores the council's organisational values and ethics and looks at key council policies and frameworks. Managers through interactions as part of the 'Performance Management and Development Framework' and 'one to one' supervision meetings will be required to determine who should attend this training.

**Responsible Officer:** Directorate Management Teams

**Target date for completion:** End Q4 2021-22 re Ethics Module training (with position reflected on the 2021-22 AGS Self-Assessment returns)

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.

### Signed

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

.....  
**Councillor Dan Fitzhenry**  
Leader of the Council

on behalf of Southampton City Council

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# Agenda Item 7

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE
<b>SUBJECT:</b>	ANNUAL REPORT ON THE MEMBERS' CODE OF CONDUCT
<b>DATE OF DECISION:</b>	4 <sup>TH</sup> OCTOBER 2021
<b>REPORT OF:</b>	SERVICE DIRECTOR: LEGAL & BUSINESS OPERATIONS AND MONITORING OFFICER

<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title</b>	Deputy Chief Executive	
	<b>Name:</b>	Mike Harris	<b>Tel:</b> 023 8083 2882
	<b>E-mail</b>	<a href="mailto:Mike.harris@southampton.gov.uk">Mike.harris@southampton.gov.uk</a>	
<b>Author:</b>	<b>Title</b>	Service Director: Legal & Business Operations and Monitoring Officer	
	<b>Name:</b>	Richard Ivory	<b>Tel:</b> 023 8083 2794
	<b>E-mail</b>	Richard.ivory@southampton.gov.uk	

<b>STATEMENT OF CONFIDENTIALITY</b>		
None.		
<b>BRIEF SUMMARY</b>		
At the time of the adoption of the current Code of Conduct for Members in 2012 the Council requested the Monitoring Officer (Service Director: Legal & Business Operations) to produce an annual report outlining the impact of the Code, a summary of the complaints received and any action taken.		
<b>RECOMMENDATIONS:</b>		
	(i)	The Committee is asked to note this annual report for the year 2020/21.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>		
1.	Unless there are any changes required to be made to either the Code or the procedures for investigation, this report is only for noting.	
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>		
2.	None.	
<b>DETAIL (Including consultation carried out)</b>		
3.	The Governance Committee has the following terms of reference in relation to corporate governance and the Code of Conduct issues:	
	•	To lead on the Council's duties under Chapter 7 Localism Act 2011 and to design, implement, monitor, approve and review the standards of ethics and probity of the Council, both for Councillors and employees. The Committee's powers shall include responding to consultation documents and the promulgation of Codes of Conduct but the adoption

		and revisions to the local Members Code of Conduct shall be reserved to the Council.
	•	To lead on all aspects of Corporate Governance by promoting the values of putting people first, valuing public service and creating a norm of the highest standards of personal conduct.
	•	To oversee and manage programmes of guidance, advice and training on ethics, standards and probity for Councillors and employees and on the Members Code of Conduct.
	•	To be responsible for the Council's register of Members' interests and to receive reports from the Monitoring Officer on the operation of the register from time to time.
	•	To be responsible for written guidance and advice on the operation of the system of declarations of Members' Interests and to receive reports from the Monitoring Officer on the operation of the system of declarations from time to time.
	•	To establish, monitor, approve and issue advice and guidance to Councillors on a system of dispensations to speak on, or participate in, matters in which they have interests and give dispensation in appropriate cases.
	•	To exercise the functions of the Council in relation to the ethical framework, corporate governance and standards of conduct of Joint Committees and other bodies.
	•	To establish a Standards Sub-Committee to investigate and determine appropriate action in respect of alleged breaches of the Members Code of Conduct.
	•	To support the Monitoring Officer and Executive Director: Finance & Commercialisation in their statutory roles and the issuing of guidance on them from time to time.
	•	To receive regular reports on the performance of the Corporate Complaints process, Local Government & Social Care Ombudsman referrals, Annual Governance Statement and Code of Corporate Governance and to recommend revisions to related policies and procedures as appropriate.
4.		The Council has a responsibility for making arrangements to receive and consider complaints against Councillors in Southampton. Stage 1 is receipt and initial consideration and, where appropriate, informal resolution by the Monitoring Officer. Where warranted, at Stage 2, the Governance Committee will determine the complaint following a detailed investigation by the Monitoring Officer or someone on his behalf.
5.		Since the adoption of the current Members' Code of Conduct, the Standards Sub-Committee has not had cause to meet to consider any allegations of breach of the Members' Code of Conduct
<u>Complaints Received</u>		
6.		The Council adopted a revised Members' Code of Conduct consistent with the requirements of the Localism Act 2011 on 11th July 2012.

7.	In summary, the regime remains fairly low key. All members have completed their Register of Interests, are reminded annually of the need to keep it updated (the Register is publicly accessible and viewable online) and a few complaints have been received. All issues / complaints have been resolved by the Monitoring Officer, investigated as appropriate and/or rejected and advice given to the complainant at Stage 1 of the complaints procedure, meaning that there have been no determinations or findings of a failure to comply with the relevant Code of Conduct by the Committee.
8.	The Monitoring Officer received 3 formal written complaints about Councillors in 2020/21 which required preliminary investigation.
9.	All complaints, formal and informal, are taken seriously and investigated proportionately as appropriate. In order to be considered under the formal complaints process, complaints must be submitted in writing, must provide substantiated information and should outline what form of resolution the complainant is seeking. When a complaint does not meet these criteria and does not reveal a potential breach of the Members' Code of Conduct, it is treated as a "general enquiry". This means that the Monitoring Officer responds to the complainant in writing explaining why the matters complained of do not constitute a potential breach of the Members' Code of Conduct. Occasionally, due to capacity or other reasons that the Monitoring Officer deems appropriate, independent external assistance may be sought to assist in determining complaints.
10.	When a complaint is submitted which provides the relevant information, the Monitoring Officer will consider and decide as to whether it will be treated as a valid complaint or not. Where it is considered valid, the Monitoring Officer may deal with the matter under delegated powers unless, after consultation with the Designated Independent Person, it is considered that the breach is potentially serious enough to merit putting before the Standards Sub Committee for determination. None met that threshold. All complaints received were determined at an early stage and the complainant advised of the reasons. Members against whom a complaint is made are generally not advised at this preliminary stage.
<u>Applications for Dispensation</u>	
11.	If a member wishes to apply for a dispensation to allow them to take part in a meeting with a disclosable pecuniary interest, they must submit a written application to the Monitoring Officer. Applications are then decided by him or by the Governance Committee.
12.	The Localism Act 2011 substantially changed the rules on interests. Regretfully, it was incomplete to order to permit members to carry out their full duties in relation to being able to vote on the budget. Annually before Full Council, all members are granted a blanket dispensation by the Monitoring Officer to allow them to take part in the decision to approve the Council's budget and set the Council Tax bands. No other dispensations have been applied for.
<u>Supporting Members of the Council</u>	
13.	Training has previously been provided to newly elected members, and as required for new Cabinet Members and those members who sit on regulatory

	bodies such as Licensing Committee and the Planning & Rights of Way Panel.
14.	<p>Importantly, the adopted Member Learning &amp; Development Strategy has been implemented and member training via external partners, such as the LGA and SEE, has gradually increased. Group Leaders have committed to increasing member development at all levels of office to better support members in discharging their roles. The planned induction and training programme has been implemented and ongoing development is currently being discussed. However, as it is likely the impact of the pandemic and subsequent different ways of working will continue for the foreseeable future officers (and external providers) are reconsidering how ongoing training and support can best be effectively provided in order to ensure members are equipped to discharge their duties fully.</p> <p>It is essential that all councillors are equipped with the skills and knowledge required to enable them to fulfil their various roles effectively and the programme will offer a range of learning and development opportunities utilising external training events, online resources and support via the Local Government Association and other third party providers. The programme will offer a mix of in-house training and development opportunities via officer-led training, e-learning packages, and briefings.</p> <p>Presently bespoke training sessions are offered to support councillors with their roles on committees and panels (including specific training around planning and licensing legislation, as well as opportunities around effective scrutiny and chairing skills).</p> <p>To coincide with the redesigned member development and induction programme in 2022, we are looking to achieve cross-party support to establish a minimum/ mandatory attendance requirement.</p>
15.	In addition, the Head of Business Operations and the Head of Organisational Development have developed and are implementing individual and team development for Cabinet Members and then with the Executive Management Team that includes use of psychometric and 360-degree feedback tools to support them.
<b><u>Gifts &amp; Hospitality</u></b>	
16.	The requirement for members to register any gifts or hospitality received in their capacity as an elected member is currently set at a minimum of £50. Minimal notifications have been made which probably reflects the limited quantity and value of any received. This requirement does, however, exclude anything relevant to elected members who are the Mayor or Sherriff when acting in those capacities
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
17.	None.
<b><u>Property/Other</u></b>	
18.	None.

<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
19.	Chapter 7 Localism Act 2011.
<b><u>Other Legal Implications:</u></b>	
20.	None.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
21.	None.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
22.	None.

<b>KEY DECISION?</b>	No
<b>WARDS/COMMUNITIES AFFECTED:</b>	None
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	
1.	None
2.	

**Documents In Members' Rooms**

1.	None
2.	

**Equality Impact Assessment**

<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	No
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**Data Protection Impact Assessment**

<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	No
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**Other Background Documents**

**Other Background documents available for inspection at:**

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.	None
2.	

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<b>DECISION-MAKER:</b>	<b>GOVERNANCE COMMITTEE</b>		
<b>SUBJECT:</b>	<b>EXTERNAL AUDIT – 2020/21 AUDIT RESULTS REPORT</b>		
<b>DATE OF DECISION:</b>	<b>4 OCTOBER 2021</b>		
<b>REPORT OF:</b>	<b>EY 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 2020/21 audit. It includes the messages arising from the audit of the Council’s financial statements and 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, AND the MTFs &amp; Revenue Manager) 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 2020/21
2.	Letter of management representation 2020/21

**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>	



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.	None

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Southampton City  
Council  
Audit results report

Year ended 31/03/2021

September 2021

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**EY**

Building a better  
working world

Appendix 1

Agenda Item 8



22/09/2021

Dear Governance Committee Members

2021 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Governance Committee. We will update the Committee at its meeting, scheduled for 04 October 2021, on further progress to that date and explain the remaining steps to the issue of our final opinion.

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

This report is intended solely for the use of the Governance Committee, other members of the Authority, and senior management. It is not intended to be and should not be used by any one other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Governance Committee meeting on 04 October 2021.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

# 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

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Governance Committee and management of Southampton City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance Committee, and management of Southampton City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance Committee and management of Southampton City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

# Executive Summary

# Executive Summary

## Scope update

In our audit planning report presented at the 26 July 2021 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.

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.

## Status of the audit

We expect to have substantially completed our audit of Southampton City Council's financial statements for the year ended 31 March 2021 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:

- Page 49
- Property, Plant and Equipment and Investment Property – principally work regarding valuations
  - Pension asset/liability valuation testing
  - Residual elements of other testing - principally on disclosures and related parties
    - Residual elements of Value for money risk-based work
    - Completion of our review of the Council's going concern assessment
    - General audit procedures, including completion of internal review processes

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the narrative report and accounts which could influence our final audit opinion.

The following are to be completed as part of the normal process for conclusion of the audit:

- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter

We do not expect to issue the audit certificate at the same time as the audit opinion. We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020-21 WGA Data Collection Tool and update the guidance that is available for preparers. Based on the last available update the data collection tool and guidance was not expected to be available until December 2021. Therefore the 2020-21 WGA component data will not be available for auditors to review until later in the year. Group Audit Instructions and the timetable for 2020-21 will necessarily follow any changes HMT make to the DCT and process. The audit certificate will be issued once this work is complete.



# Executive Summary

## Auditor responsibilities under the new Code of Audit Practice 2020

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

The specified reporting criteria are:

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

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## Status of the audit - Value for Money

In the Audit Plan presented to the Governance Committee on 26 July 2021, we reported that our value for money (VFM) risk assessment was ongoing, and we had identified a risk of significant weakness in respect of the financial sustainability criteria. We communicated our planned procedures which included evaluating the processes that the Council had in place to manage financial pressures arising from Covid-19, comparing the 2020/21 outturn position with in-year forecasting, and reviewing the Council's Medium Term Financial Strategy. We have completed our risk assessment and have not identified any new risks of significant weakness in VFM arrangements.

Our value for money conclusion work is in progress at the time of writing this report. We will provide an update at the Governance Committee meeting on 04 October.



# Executive Summary

## Audit differences

There are no adjusted differences above our performance materiality level, arising from work completed to date.

We have identified two audit differences in the draft financial statements which management has chosen not to adjust.

- The first is in relation to Property, Plant and Equipment (PPE) assets not revalued in 2020/21, understating the balance by £2.4m,
- The second 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, overstating the pension liability by £1.6m

We ask that a rationale as to why these are not corrected be approved by the Governance Committee and included in the Letter of Representation. 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 update the Governance Committee at the meeting on 04 October 2021 if we identify any issues from the work that remains outstanding at the time of writing this report.

## Other reporting issues

We review the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. Subject to review, 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. Currently, the issue of the template submission by HM Treasury has been delayed, meaning that this work cannot be performed until December at the earliest. This does not affect our ability to sign the audit opinion on your financial statements.

We have no other matters to report.

## Control observations

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

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

There are no matters we wish to report.

# Executive Summary

## Areas of audit focus

Our audit planning report 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 04 October.

- 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
- 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
- Valuation of Investment Property and Land and Buildings (valued using EUV & FV method) – 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. One unadjusted audit difference has been identified as set out on page 7.
- Valuation of Land and Buildings valued at Depreciation Replacement Cost (DRC), and Housing Revenue Account (HRA) Properties – 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.
- Pension Liability Valuation – as noted above, this is one of the key areas remaining to be fully completed. One unadjusted audit difference has been identified from the work performed to date, as set out on page 7.
- Restatement of the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and related disclosure notes – no issues have been identified from our work to address this risk at the time of writing this report
- Accounting for Covid-19 related government grants - no issues have been identified from our work to address this risk at the time of writing this report
- New fixed asset register - no issues have been identified from our work to address this risk at the time of writing this report
- Going concern disclosure – as noted above, this is one of the key areas remaining to be fully completed.

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.

## Independence

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



## 02 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, and IAS19 pension estimates, which we have identified as areas of significant or 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 04 October 2021.





# 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 2020/21 was £73m, and the value of Investment Property (IP) additions was £1m.

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### 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, and 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?

Subject to completion of internal review, we expect to conclude that no issues indicating material capitalisation of revenue expenditure has been identified through our testing of PPE/IP additions and journal entries.





# Areas of Audit Focus

## Significant risk

Valuation of Investment Property and Land and Buildings (valued using EUV & FV method)

Page 56

### What is the risk?

The value of Investment Property (IP) and Land and Buildings (valued using EUV/FV method) within property, plant and equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews, and market fluctuations. PPE is also depreciated. 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.

Given the nature of Covid-19 and the fact that 2020/21 was predominantly influenced by local and national lockdowns, we anticipated that the valuer may not be able to conduct site visits due to the restrictions that are in place and that the valuer will have to perform a remote approach to valuing the properties which may further increase the risk around these valuations. The market volatility brought about by the advent of Covid-19 in the last quarter in the prior year and throughout the 2020/21 year relates primarily to assets carried at a market value – either fair value (investment property and surplus assets) or Existing Use Value (EUV) as a proxy for FV (some of land and buildings). Assets carried at depreciated replacement cost (DRC) and EUV-SH (Council housing) are not considered to be impacted in the same way.

The value of IP in the draft accounts at 31/03/2021 was £113.1m. The value of PPE valued at existing use value was £64m.

### What did we do?

We:

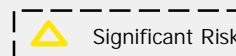
- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key input information used by the valuer in performing the valuations and challenged the key assumptions used by the valuer.
- Commissioned EY Real Estates, our internal specialists on asset valuations, to consider the valuation approach in more detail for a smaller sub-set of the sample of assets.
- Tested whether valuations have been correctly processed in the financial statements.
- 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, and annually for IP. We also considered if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer.
- Reviewed assets not subject to valuation in 2020/21 to confirm the remaining asset base was not materially misstated.

### What are our conclusions?

Our work on valuations is in progress at the time of writing this report. We have involved our internal specialists in testing a representative sample of investment property and land and buildings (valued using EUV & FV method), with the remainder of the sample being tested by the audit team. Information and explanations to support the valuations have been requested, and our review of the responses received to date is well progressed.

We have identified one unadjusted audit difference from the work completed to date, regarding the valuation of assets not valued within the year. No material misstatement is identified, but we identified a judgemental difference of £2.4m.

We will provide an update at the Governance Committee meeting on 04 October.





## Areas of Audit Focus

### Other areas of audit focus

Valuation of Land & Buildings valued at Depreciated Replacement Cost (DRC), and Housing Revenue Account (HRA) properties

#### What is the risk?

The value of Property, Plant and Equipment (PPE) represents 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 31/03/2021 was £1.5bn. Of this total, £442m is subject to revaluation on the basis of DRC.

#### Page 57 What did we do?

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer;
- Tested whether valuations have been correctly processed in the financial statements;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code; and
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated.

#### What are our conclusions?

Our work on property, plant and equipment valuations is in progress at the time of writing this report. Information and explanations to support the valuations have been requested, and our review of the responses received to date is well progressed.

We will provide an update at the Governance Committee meeting on 04 October.



# 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 2021 was £587m.

#### What are our conclusions?

At the time of writing of this report, our planned work in this area is largely complete, but an issue has arisen across all local government audits that needs to be resolved prior to us being able to fully conclude our work. This is in relation to the impact of the new auditing standard on accounting estimates. We planned to take an audit approach to this estimate based on procedures to evaluate management's process.

Our work to assess the assumptions applied by the actuary, and the data used in making the IAS19 estimate, is substantially complete. We have identified one unadjusted audit difference from this work, which is a difference in the estimated value of the pension asset of £1.6m. No other issues have been noted.

The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We will provide the Committee with a verbal update on progress at the 04 October 2021 meeting.

#### 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 Solutions) 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 considered 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.





# 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 2020/21, which means 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.

### 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?

Subject to completion of internal review, we expect to conclude that the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and related disclosure notes, have been restated appropriately following the change to internal reporting structures.



# Areas of Audit Focus

## Other areas of audit focus

### Accounting for Covid-19 related government grants

#### What is the risk?

The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

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#### What did we do and what judgements did we focus on?

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

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

We sought to determine whether conditions were attached to the grant funding received and whether those conditions were met or not.

Considering the outcome of the above we considered the appropriateness of the accounting treatment for the grants, in particular whether the grants were correctly classified, and whether associated disclosure were also accurate.

#### What are our findings & conclusions?

Our work on COVID-19 government grant is complete subject to final review

Based on our work we are satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.



# Areas of Audit Focus

## Other areas of audit focus

### New fixed asset register

#### What is the risk?

The Council has used the new fixed asset module of Business World to record its property, plant and equipment and investment property for the first time in full in 2020/21. The Council needs to ensure opening asset balances are fully and accurately transferred to this system, and that the system is correctly processing in-year movements in asset balances.

#### What did we do?

Our approach focused on:

- Agreeing the opening balances in the new system to the closing balances in the previous fixed asset register
- Considering the outcome of our wider testing of PPE and Investment Property to assess the accuracy of transactions processed in the new system

#### What are our conclusions?

Our work in relation to this risk is substantially complete, subject to final review. We expect to conclude that:

- We have not identified any issues regarding the completeness and accuracy of FAR data transferred to the new asset module.
- We have not identified any issues from our wider PPE and IP testing regarding the accuracy of transactions processed in the new system.



# Areas of Audit Focus

## Other areas of audit focus

### Going Concern Disclosure

#### What is the risk?

There is a presumption that the Council will continue as a going concern for the foreseeable future, based on the continuation of services principle in the public sector. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces, which in the current circumstances of the global pandemic should continue to include the forecast impact of Covid-19.

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

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

Page 02

#### What did we do?

We:

- Challenged management’s identification of events or conditions impacting going concern.
- Tested management’s resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewed the Council’s cashflow forecast covering the foreseeable future to ensure that it has sufficient liquidity to continue to operate as a going concern, including an assessment of any underlying need to borrow.
- Undertook a ‘stand back’ review to consider all of the evidence obtained, whether corroborative or contradictory, in drawing our conclusions on going concern.
- Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.

#### 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 04 October. Our work is well progressed; we are awaiting an updated Cash flow forecast which covers the period through to October 2022.



# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### 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 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, the related notes 1 to 40 and the Expenditure and Funding Analysis, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account and the related notes 1 to 5, and the Collection Fund and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

##### Basis for opinion

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

In auditing the financial statements, we have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Section 151 Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

##### Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The 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.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is



# Audit Report

## Our opinion on the financial statements

a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the 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;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

### Responsibility of the Section 151 Officer

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 27, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the 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.



# Audit Report

## Our opinion on the financial statements

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

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

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

- the Local Government Act 1972;
- Local Government and Housing Act 1989 (England and Wales)
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992)
- the Local Government Act 2003;
- the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020;
- the National Health Service Act 2006;
- Education Act 2002 and school Standards and Framework Act 1998 (England)
- the Local Audit and Accountability Act 2014; and
- the Accounts and Audit Regulations 2015.

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

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

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

- To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- To address our fraud risk of management override of controls, we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; assessed accounting estimates for evidence of management bias; and evaluated the business rationale for any identified significant unusual transactions.





# Audit Report

## Our opinion on the 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 reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether Southampton City Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether 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 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, 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.

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 and unadjusted differences

We report to you any uncorrected misstatements greater than our nominal value of £0.621m.

We have identified two audit differences in the draft financial statements which management has chosen not to adjust.

- The first is in relation to Property, Plant and Equipment (PPE) assets not revalued in 2020/21, understating the assets by £2.4m
- The second 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, understating the gross asset by £1.6m, leading to an overstatement of the net liability by that same value.

We agree with management's assessment that the impact is not material. We ask that a rationale as to why these are not corrected be approved by the Governance Committee and included in the Letter of Representation.

We have reviewed the prior period restatements set out in Note 5 to the financial statements. In our view, the restatements impacting investment property income, and trade debtors in the financial instruments note, do not meet the threshold for restatement under IAS 8. Management judge the restatements to be necessary on a qualitative basis to ensure comparability, and have declined to reverse them. However, as these are below our materiality level, this does not impact our ability to issue the audit opinion.

There are no adjusted differences above our performance materiality level, arising from work completed to date.

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 04 October 2021 if we identify any issues from the work that remains outstanding at the time of writing this report.



05

## Value for Money



# Value for money

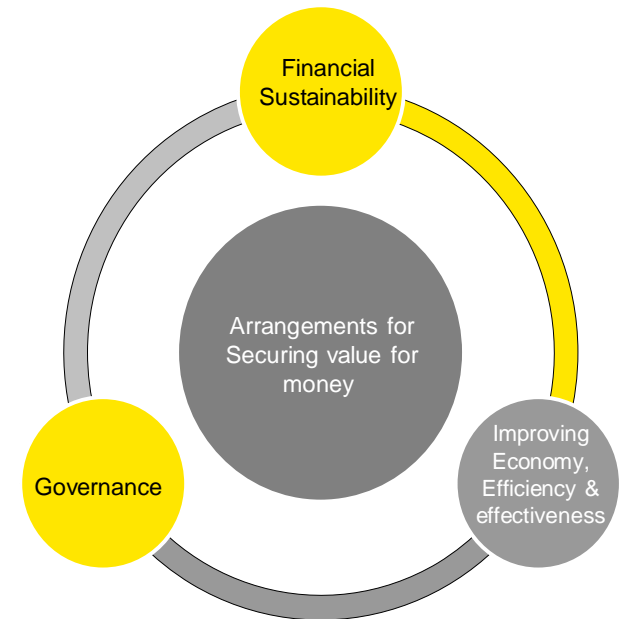
## The Council's responsibilities for value for money (VFM)

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

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

## Page 7 Risk assessment

We have previously reported to the Governance Committee the outcome of our assessment of the risk of significant weaknesses in the Council's VFM arrangements - that we had identified a risk in relation to Financial Sustainability (please see the next slide) We have revisited our risk assessment and have not identified any additional risks.





## Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>The Council's going concern disclosure in the 2019/20 financial statements indicated a risk that general fund reserves would need to be used to meet budget gaps, arising largely from factors linked to Covid-19, to the extent that these reserves could be depleted down to the minimum level set by Council policy (£10m). Were this to occur, it would create a risk that future budget gaps or financial shocks could not be met. This is judged to give rise to a potential weakness in arrangements to ensure financial sustainability, and has therefore been identified as a risk to our value for money conclusion for 2020/21.</p>	<p>Financial sustainability</p>	<p>Our approach focuses on:</p> <ul style="list-style-type: none"> <li>• Reviewing the actions taken by the Council to manage the financial pressures arising from Covid-19;</li> <li>• Reviewing the outturn position for 2020/21 and comparing this with in-year forecasts; and</li> <li>• Reviewing the Council's latest Medium Term Financial Strategy and the key assumptions on which it is based.</li> </ul>

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## Status of our VFM work

Our work to address the above risk is in progress at the time of writing this report.

To date, we have reviewed financial monitoring updates and outturn reports to understand the ongoing process to mitigate Covid-19 related, and other, financial pressures, and to understand how the situation developed over the year. We have reviewed the Council's medium term financial strategy (MTFS) and undertaken scenario modelling to review the key assumptions used. We have supplemented this work with discussions with officers to understand the actions which are taken to respond to pressures, to review and report on financial performance, and to keep the MTFS updated for recent developments.

We currently do not expect to need to report by exception, subject to completion of the remaining work.

We will provide a further update at the Governance Committee meeting on 04 October.

We plan to issue the VFM commentary by November 2021 as part of issuing the Auditor's Annual Report.



## 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 2020/21 Financial Statements document 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.

Subject to final review, we expect to conclude that:

Financial information in the 2020/21 Draft Financial Statements document and published with the financial statements was consistent with the audited financial statements

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

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### Whole of Government Accounts

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

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020-21 WGA Data Collection Tool and update the guidance that is available for preparers. Based on the last available update the data collection tool and guidance was not expected to be available until December 2021. Therefore the 2020-21 WGA component data will not be available for auditors to review until later in the year. Group Audit Instructions and the timetable for 2020-21 will necessarily follow any changes HMT make to the DCT and process. 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

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

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

We have nothing to report.



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.

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# 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 2020/21, our use of these analysers in the Council's audit included testing selecting samples for general income and expenditure testing, testing payroll costs, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

#### Journal Entry Analysis

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

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



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09

# Independence

## Relationships, services and related threats and safeguards

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

There are no relationships from 1<sup>st</sup> April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The table below sets out a summary of the fees for the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. 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.

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	Final Fee 2020/21	Planned Fee 2020/21	Final Fee 2019/20
	£	£	£
PSAA Scale Fee	109,891	109,891	109,891
Scale fee rebasing (1)	68,235		68,235
<b>Revised proposed scale fee</b>	<b>178,126</b>		<b>178,126</b>
Scale fee variations (2,3)	tbc		27,752
<b>Total fees</b>	<b>178,126</b>		<b>205,878</b>

All fees exclude VAT

Notes:

(1) As detailed in our 2019/20 Annual Audit Letter we have submitted a proposed rebasing of the scale fee to reflect changes in work required to address professional and regulatory requirements and scope associated with risk. PSAA are yet to conclude on the rebasing.

(2) The 2019/20 Code work includes a proposed additional fee of £27,752, for additional work undertaken in relation to going concern, property valuations, VFM, new ledger system, CIES/EFA restatement and pensions. This additional fee has been agreed with the Section 151 officer; it remains subject to approval from PSAA.

(3) As noted in the previous sections of this report, we have identified new and continuing risks for 2020/21 that are not within the scale fee, the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. Additional work has been required to address these. We will quantify these and provide an update following the conclusion of the audit.

## Other communications

### EY Transparency Report 2020

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

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

[EY UK Transparency Report 2020 | EY UK](#)





# 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.

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
- 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 July 2021. This is consistent with our audit approach in the prior year.




There were no significant changes to our audit approach apart from the additional work we were required to undertake to address the requirements of the new auditing standard on accounting estimates. This primarily impacted out audit procedures on:

- The revaluation of land and buildings classified as Property, Plant and Equipment (PPE), Investment Property (IP) and Surplus Assets.
- Pension liability and asset valuation. The most significant change was engaging our pension specialists to determine an auditors estimate for the pension liability.

## Appendix B

# 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 – 26 July 2021	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – 26 July 2021	
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 – 04 October 2021	

# Appendix B

		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 – 04 October 2021
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 – 04 October 2021
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 – 04 October 2021
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 – 04 October 2021

## Appendix B

		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 – 04 October 2021
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 – 26 July 2021</p> <p>Audit results report – 04 October 2021</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 B

		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 – 04 October 2021
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 – 04 October 2021
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 – 04 October 2021
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 – 04 October 2021
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 – 26 July 2021 Audit results report – 04 October 2021

# 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 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Southampton City Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK 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 2020/21.

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

## Provisional 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: 04 October 2021.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
6. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
7. 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.
8. From the date of our last management representation letter (27 November 2020) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.



# Management representation letter

## Provisional 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 as described in Note 7 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year 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, the valuation of the IAS19 pension fund liability, the valuation of the business rates appeals provision and financial instruments disclosures, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### H. Estimates

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

1. We confirm that the significant judgments made in performing the revaluation of PPE and IP, and in performing the pension liability valuation have taken into account all relevant information and the effects of the COVID-19 pandemic which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied in performing the revaluation of PPE and IP, and in performing the pension liability valuation.
3. We confirm that the significant assumptions used in performing the revaluation of PPE and IP, and in performing the pension liability valuation appropriately reflect our intent and ability to carry out the revaluation on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. We confirm that appropriate specialized skills or expertise has been applied in undertaking the revaluation of PPE and IP, and in performing the pension liability valuation.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the COVID-19 pandemic.



## Appendix C

# Management representation letter

### Provisional Management Representation Letter

#### 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 1(a) 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.

I confirm that this letter has been discussed and agreed by the Authority on 04 October 2021

Name: John Harrison

Position: Section 151 Officer

Name: Councillor David Fuller

Position: Chairman of the Governance Committee

# Implementation of IFRS 16 Leases

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

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

IFRS 16 theme	Summary of key measures
Data collection Page 93	Management should: <ul style="list-style-type: none"> <li>Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.</li> <li>Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases</li> <li>Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.</li> </ul>
Policy Choices	The council needs to agree on certain policy choices. In particular: <ul style="list-style-type: none"> <li>Whether to adopt a portfolio approach</li> <li>What low value threshold to set and agree with auditors</li> <li>Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components</li> <li>What is managements policy in relation to discount rates to be used?</li> </ul>
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the ‘remeasurement’ or ‘modification’ of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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ED None

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<b>DECISION-MAKER:</b>		<b>GOVERNANCE COMMITTEE</b>	
<b>SUBJECT:</b>		<b>STATEMENT OF ACCOUNTS 2020/21</b>	
<b>DATE OF DECISION:</b>		<b>4 OCTOBER 2021</b>	
<b>REPORT OF:</b>		<b>EXECUTIVE DIRECTOR FOR FINANCE, COMMERCIALISATION &amp; S151 OFFICER</b>	
<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title:</b>	<b>Executive Director for Finance, Commercialisation &amp; S151 Officer</b>	
	<b>Name:</b>	<b>John Harrison</b>	<b>Tel: 023 80834897</b>
	<b>E-mail:</b>	<a href="mailto:John.Harrison@southampton.gov.uk">John.Harrison@southampton.gov.uk</a>	
<b>Author:</b>	<b>Title:</b>	<b>MTFS &amp; Revenue Manager</b>	
	<b>Name:</b>	<b>Stephanie Skivington</b>	<b>Tel: 023 80832692</b>
	<b>E-mail:</b>	<a href="mailto:Stephanie.Skivington@southampton.gov.uk">Stephanie.Skivington@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 (Amendment) Regulations 2021) the Draft Statement of Accounts 2020/21 was signed by the Executive Director for Finance, Commercialisation &amp; S151 Officer on 14 June 2021 ahead of the 31 July 2021 deadline. The Committee is required to consider and approve the audited accounts before they are published, and publication must take place as soon as reasonably practicable after the audit opinion has been received.</p>		
<p>The year-end audit, carried out by our auditors Ernst &amp; Young LLP, commenced on 5 July 2021 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. A copy of the updated Statement of Accounts is available in the Members' Room.</p>		
<b>RECOMMENDATIONS:</b>		
	(i)	Notes the changes to the Statement of Accounts 2020/21 as a result of the annual audit as detailed in paragraphs 5 to 7 and appendix 1, none of which change the overall bottom line position for the Council for 2020/21.
	(ii)	Considers and approves the audited Statement of Accounts 2020/21.
	(iii)	Approves the rationale for not correcting the audit differences relating to the valuation of Property, Plant and Equipment (PPE) not revalued within the year and the net pension liability as set out in paragraphs 8 to 10.

	(iv)	Resolves that the Executive Director for Finance, Commercialisation & S151 Officer, after consultation with the Chair of the Committee, can make any further minor changes to the Statement of Accounts 2020/21 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 2020/21 is considered and approved by this committee, following the audit, and signed by the person presiding at this meeting. The legislation sets a target date for publication of 30 September 2021. The Statement of Accounts must be published by that date 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 has been prepared in accordance with statutory requirements. No other options have been considered as it is a legal requirement that the Statement of Accounts is 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 is 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 26 July 2021. A copy of this is available in the Members' Room or by following the link below. <a href="#">Draft Statement of Accounts 2020/21</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 2020/21.
6.		The updated Statement of Accounts is 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>• Correction to Note 8 Expenditure and Funding Analysis (Income and Expenditure by Nature) to reclassify Housing Revenue Account (HRA) expenditure from other service expenses to employee benefits;</li> <li>• Correction to the Comprehensive Income and Expenditure Statement, Note 8 Expenditure and Funding Analysis and HRA statement to recognise landlord heating charges expenditure and income (net nil effect);</li> <li>• Amendment to Note 12 Property, Plant and Equipment of the analysis of net book value by year of valuation.</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 net book value for Other Land and Buildings (within Property, Plant and Equipment) as at 31 March 2021 reported in the draft accounts was £506.7M. The auditors have identified that the value of assets not revalued in 2020/21 is understated by £2.4M (0.5%).
9.	The Council's net pension liability as at 31 March 2021 reported in the draft accounts was £586.7M. This is an estimate provided by the actuary of the Hampshire Pension Fund based on a number of assumptions. The auditors have identified that, in relation to the assumptions used by the actuary to determine their estimate of the Council's defined benefit pension liability, the gross asset is understated by £1.6M, leading to an overstatement of the net liability by £1.6M (0.3%).
10.	We have not corrected the accounts for either of these audit differences because: <ul style="list-style-type: none"> <li>• They are below the materiality level both individually and in aggregate;</li> <li>• There is no overall material variance and no net impact on the General Fund or HRA reported position;</li> <li>• The auditors have confirmed that these are not material items that need amending;</li> <li>• The uncorrected amounts 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>	
11.	The capital and revenue implications were considered as part of the Revenue and Capital Outturn 2020/21 report that was presented to Cabinet on 19 July 2021.
<b><u>Property/Other</u></b>	
12.	To date, no changes have been made to the property valuations recognised in the accounts.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
13.	Accounts and Audit Regulations 2015 and the Accounts and Audit (Amendment) Regulations 2021.
<b><u>Other Legal Implications:</u></b>	
14.	None.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
15.	Not applicable
<b>POLICY FRAMEWORK IMPLICATIONS</b>	

16.	Not applicable. It should be note that the Statement of Accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2020/21.

<b>KEY DECISION?</b>	<b>Yes/No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	<b>None</b>
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	
1.	Schedule of changes to Draft 2020/21 Accounts
2.	

**Documents In Members' Rooms**

1.	Updated Statement of Accounts 2020/21
2.	Governance Committee Report 26 July 2021 – Draft Statement of Accounts 2020/21.



<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.		
2.		

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Revisions made to Statement of Accounts

Ref No	Description	Page	Statement/ Note	Detail																																																																																																																								
1	Correction to Analysis of Income and Expenditure by Nature disclosure for HRA employee benefits expenditure/other service expenses incorrectly classified	57	8	<p><b>Expenditure and Funding Analysis</b></p> <p>Original</p> <table border="1"> <thead> <tr> <th>2019/20 £000</th> <th>Analysis of income and expenditure by nature</th> <th>2020/21 £000</th> <th>2019/20 £000</th> <th>Analysis of income and expenditure by nature</th> <th>2020/21 £000</th> </tr> </thead> <tbody> <tr> <td></td> <td><b>Income</b></td> <td></td> <td></td> <td><b>Income</b></td> <td></td> </tr> <tr> <td>(125,364)</td> <td>Revenue from contracts with service recipients</td> <td>(109,937)</td> <td>(125,364)</td> <td>Revenue from contracts with service recipients</td> <td>(113,782)</td> </tr> <tr> <td>(344,627)</td> <td>Government grants and contributions</td> <td>(418,134)</td> <td>(344,627)</td> <td>Government grants and contributions</td> <td>(418,134)</td> </tr> <tr> <td>(9,917)</td> <td>Other service income</td> <td>(9,812)</td> <td>(9,917)</td> <td>Other service income</td> <td>(9,812)</td> </tr> <tr> <td>(7,903)</td> <td>Income in relation to investment properties</td> <td>(6,170)</td> <td>(7,903)</td> <td>Income in relation to investment properties</td> <td>(6,170)</td> </tr> <tr> <td>(785)</td> <td>Interest and investment income</td> <td>(1,854)</td> <td>(785)</td> <td>Interest and investment income</td> <td>(1,854)</td> </tr> <tr> <td>(179,744)</td> <td>Income from council tax and non-domestic rates</td> <td>(130,451)</td> <td>(179,744)</td> <td>Income from council tax and non-domestic rates</td> <td>(130,451)</td> </tr> <tr> <td>(12,132)</td> <td>Proceeds from the disposal of non-current assets</td> <td>(4,478)</td> <td>(12,132)</td> <td>Proceeds from the disposal of non-current assets</td> <td>(4,478)</td> </tr> <tr> <td><b>(680,472)</b></td> <td></td> <td><b>(680,836)</b></td> <td><b>(680,472)</b></td> <td></td> <td><b>(684,681)</b></td> </tr> <tr> <td></td> <td><b>Expenditure</b></td> 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7	Additional related party disclosures	94	29	<p><b>Related Parties</b></p> <p>Add the following information:</p> <p>One councillor is a trustee of Southampton Advice and Representation Centre which received service payments of £0.104M from the Council in 2020/21. The councillor was not involved in the award of the contract.</p> <p>One councillor is a trustee of Northam Community Link which received payments of £0.016M from the Council in 2020/21, mostly for annual rental charges.</p> <p>Amend the business support grants awarded from £0.086M to £0.106M.</p>																																																																																																																																																																																																		
8	Minor textual changes	35 101 112 118	1a) 34b) HRA CF 3	<p><b>Accounting Policies</b> - update to period of cash flow forecast</p> <p><b>Defined Benefit Pension Schemes</b> - correction to prior year comparator</p> <p><b>Note to Statement of Movement on HRA</b> - clarification of gains/losses signage</p> <p><b>Non-Domestic Rates</b> - correction to prior year referenced</p>																																																																																																																																																																																																		

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# Southampton City Council **STATEMENT OF ACCOUNTS**

2020/21





## STATEMENT OF ACCOUNTS

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### Introduction to the Statement of Accounts by Councillor John Hannides, Cabinet Member for Finance

As Cabinet Member for Finance for Southampton City Council, I am very pleased to be able to present to you the Statement of Accounts for 2020/21.

The authority provides a diverse range of services to its residents. These services include (among others) Adults Social Care, Children's Social Care, Schools, Refuse Collection and Waste management, Leisure, Libraries, Housing Services (including the provision of around 15,900 houses and flats within the Housing Revenue Account), Car Parking, Environmental Health, Economic Development, Planning and Development Control and many more which support our families, communities, and businesses.

The last financial year has been an exceptional one and has placed major pressure on many of our public services, including the Council. During 2020/21, the Council has needed to prioritise its focus onto the Coronavirus pandemic threat we all face and swiftly re-focus resources to ensure our residents and communities have the maximum support we can provide. I wish to express my sincere thanks to all our staff for their work and dedication during this most difficult of years.

Additional financial support from central government assisted the Council in meeting the financial impact arising from the pandemic. Further funding support came in different guises. For example, there was also considerable funding support to business impacted by the pandemic, which came from Government but flowed through the Council acting as an agent to ensure businesses received help with their business rates or financial support during period of lock down. There were many other initiatives the Council was at the heart of, including operating emergency food hubs, supporting the care market, providing Covid safe home to school transport and applying a £150 discount from council tax for those entitled to claim local council tax support (with assistance from Government funding). You will find more detail on these and other measures referenced below showing how the Council has carried out this work as a part of these Statement of Accounts.

The Council faces a continued challenge with the pandemic crisis and also an environment of where the costs and demands on our services are growing each year and resources are finite. The effects of the pandemic also brings uncertainty over future costs and funding for the authority, but I am confident based on how well our staff have met these challenges to date that the authority will continue to meet these challenges into the future on behalf of all our local residents. The pandemic has presented a 'once in a hundred year' challenge to us, but Southampton Council will continue to be well placed to support all our residents as we emerge from this crisis in the coming weeks and months.

## NARRATIVE STATEMENT

### Message from the Executive Director for Finance, Commercialisation & S151 Officer, John Harrison

The purpose of this publication is to present the statutory financial statements for Southampton City Council covering the period 1 April 2020 to 31 March 2021. The statements can be technical and complex, but where possible we have presented them as simply as we can, and I would recommend reading the narrative statement for an overview of the authority's financial position for the year.

At the February 2020 Council meeting a very robust budget for 2020/21 was set, as well as financial plans for the following two years with financial resilience very much in mind. Management of risk and promoting financial resilience was a key principle behind the budget strategy and this has helped facilitate the council in being fully able to respond and help our residents and their communities during the pandemic crisis, which has dominated the financial year. My priority during 2020/21 has therefore been to ensure that the Finance Service provided efficient and effective support to the Council in all its efforts to combat and contain the effects of the Covid-19 pandemic, whilst still continuing to support the delivery of members' vision and deliver the priorities agreed by councillors.

Across the Council, staff have been called on to support efforts to help against the impact of the pandemic. Examples from my own Finance staff are given below, and further examples from across the Council are supplied within section 5:

- Administering a variety of funds from Government provided in support of local businesses to assist in coping during the various stages of lockdown. This has included significant grant allocations for many businesses in the Retail, Hospitality and Leisure sector, among others.
- Administering the scheme to provide £150 off the council tax bill for 2020/21 for those eligible within the Local Council Tax Support Scheme.
- Supporting a successful bid to the National Leisure Recovery Fund and award of £0.61M will significantly reduce the Council's financial liabilities to the service providers for our leisure contracts
- Tracking the financial impact of the pandemic on the council in order to submit monthly returns to Government highlighting the financial cost and preparing claims to Government covering lost revenue from sales fees, charges income when much lower than budgeted for.
- Acquiring and managing approx. £0.3M for personal protective equipment (PPE) usage.
- Responded sympathetically and helpfully for all those in genuine need and who were unable to pay sums owed to the Council, recognising the financial challenges arising from the current crisis and supporting people to manage their debts to the council.
- Advised on how to support many of our contractors and suppliers during difficult times, to ensure the council recognised their financial difficulties and ensure they were treated as sympathetically as possible.
- Responded quickly, decisively and effectively to the financial risks to the Council's golf provider as a result of the pandemic and to take control of the situation and the management of the course by negotiating exit arrangements and terminating the contract
- At the outset of the lockdown, aimed to pay our suppliers as soon as possible to aid their cashflow, in line with government guidance.

More generally, the Council ensured that all of our emergency response services including Housing Operations, Street Lighting and Highways continued to operate throughout the pandemic to ensure our customers, staff and the general public were kept safe and the Council's assets were safeguarded.

More detail on the Council's overall response to the pandemic crisis is included in the narrative below. The Council has coped with the pandemic whilst maintaining its delivery of good value services and has

## NARRATIVE STATEMENT

done this whilst delivering overall spending less than allowed for within the agreed total budget as supplemented by various streams of Government financial support to help meet this unprecedented challenge.

The financial information below shows a sum of £8.6M being underspent for the 2020/21 financial year which has been taken to reserves and will help meet future council priorities as Southampton emerges from the lock down and supports our management of future risks.

I would like to express my sincere and genuine thanks for all staff in my Finance team who have made every effort to play their part in the Council's efforts to support our communities during the pandemic, against a background of much increased demand for our services and the difficulties presented by very challenging ways of working forced on to us by the pandemic.

2020/21 was year two of the Chartered Institute of Public Finance and Accountancy (CIPFA) new financial resilience index for local authorities. The index can be used as a tool to compare against other groupings of authorities but is only a starting point for analysis and in itself should not be relied on for conclusions. Some key points from the index were:

- SCC was considered to be at the lower end of the risk spectrum for measures for reserves in comparison to both unitaries and its 'nearest neighbours' comparator authorities (those with similar characteristics).
- However, for the Housing Revenue Account (HRA), the council was shown as being towards the higher end of risk. This was on the basis of comparing reserves with that held as at 31/03/2017, (a 33% reduction). The HRA reserve policy is to hold £2M and given no change recently to this balance and forward projections show this balance being maintained, it is not considered a major risk.
- On the relative proportion spent in Adult Social Care – which is led by demand and statutory requirements to meet client needs – Southampton was towards the higher end of risk. However, a key part of budget planning has been to recognise the financial stress faced by the authority with these services and ensure a robust budget to cater for rising demand pressure with a risk reserve specifically for social care provision set aside of around £7.4M.
- Southampton City Council has less reliance on fees and charges income and therefore less exposure to loss from the pandemic.

As well as giving the highest priority to the on-going response to the pandemic, Finance staff have also been working to improve our core financial systems. Work is progressing with the new financial management system (Business World) introduced in late 2019 to maximise the benefits from the system and its reporting capability as enhancing the supporting financial systems. A new method of recording, monitoring and tracking the council's revenue has been developed, called Income Manager, the full benefit of which will be felt in 2021/22 through much more automated recording of council income reducing the need for expensive manual intervention and reducing errors.

I have structured this narrative statement to help enable readers to understand the Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts.

It should be noted that all local authorities are required to publish an Annual Governance Statement including highlighting any significant changes. The Annual Governance Statement is included in Section 8 on page 123.

The Council reviews annually any interest in companies and other entities for any financial relationships which would require the Council to produce group accounts. In 2020/21 there were no material transactions that require this. Note 36 on page 105 provides further information.

## NARRATIVE STATEMENT

The sections contained within the Narrative Statement are:

1. Key Facts about Southampton
2. Key Facts about Southampton City Council
3. A summary of the financial performance
4. An explanation of the statement of accounts
5. Accounting issues & developments

Looking ahead, the Authority faces very significant financial uncertainty which will make service and financial planning even more challenging than usual. The continued uncertainty over the on-going impact from the pandemic is a major factor, and how service spending and loss of income to the council will continue to affect the financial strain on the council. Coupled with that, the economic impact from the pandemic on local businesses as well as the local labour market will also feed into the funding the council can expect as its major funding streams are inextricably linked with the health of the local economy.

Government has supported all local authorities during the pandemic via a mixture of specific and general grants. In addition, there has been a scheme to compensate for a major element of lost income from sales fees and charges and for meeting a degree of the losses arising from reduced council tax and business rates. Uncertainty still remains over the medium to long term financial impact from Covid but any rapid economic 'bounce-back' this will help strengthen the council's finances.

More generally, Government has not pre-announced any future financial settlement for 2022/23, nor any Spending Review for the course of public finances as a whole for after 31 March 2022. Changes are still anticipated to arise for local authority funding from the overhaul of the business rate retention scheme which funds a major part of all local authority income as well as the Fair Funding Review, which is the mechanism that will be applied to balance the respective relative need to spend of each authority, based on various demographic and geographical factors. The long-awaited green paper on funding for Adult Social Care is also still to be published.

The financial outlook for the council was published at the time of the February 2021 Council meeting as part of the budget papers for the current financial year (2021/22). The Medium Term Financial Forecast contained within that report highlighted a budget shortfall of £22.5M for 2022/23, rising to £27.3M in 2023/24. These projections include assumptions about the effects of Covid-19 and will remain under constant review as the impact from the Government vaccine programme and the road map of emerging from the lock down status emerges. I am confident that with work already underway to close this financial gap that the authority can maintain good financial health going forward.

We will continue to err on the side of prudence with planning the finances of the Council, ensuring robust plans are in place to cater for future risks, including the potential for the pandemic to have a continuing impact on council finances. The emphasis will be on delivering efficient and effective services over the long term, based on long term thinking to ensure sustainable finances. We must deliver a realistic and balanced budget each year, but we know only so much can be done by reducing budgets and restructuring services. We will therefore continue the work to place an emphasis on developing our 'commercial' offer to both strengthen our ability to raise income and to become more self-reliant as the optimal way to meet our financial challenges in the longer term.

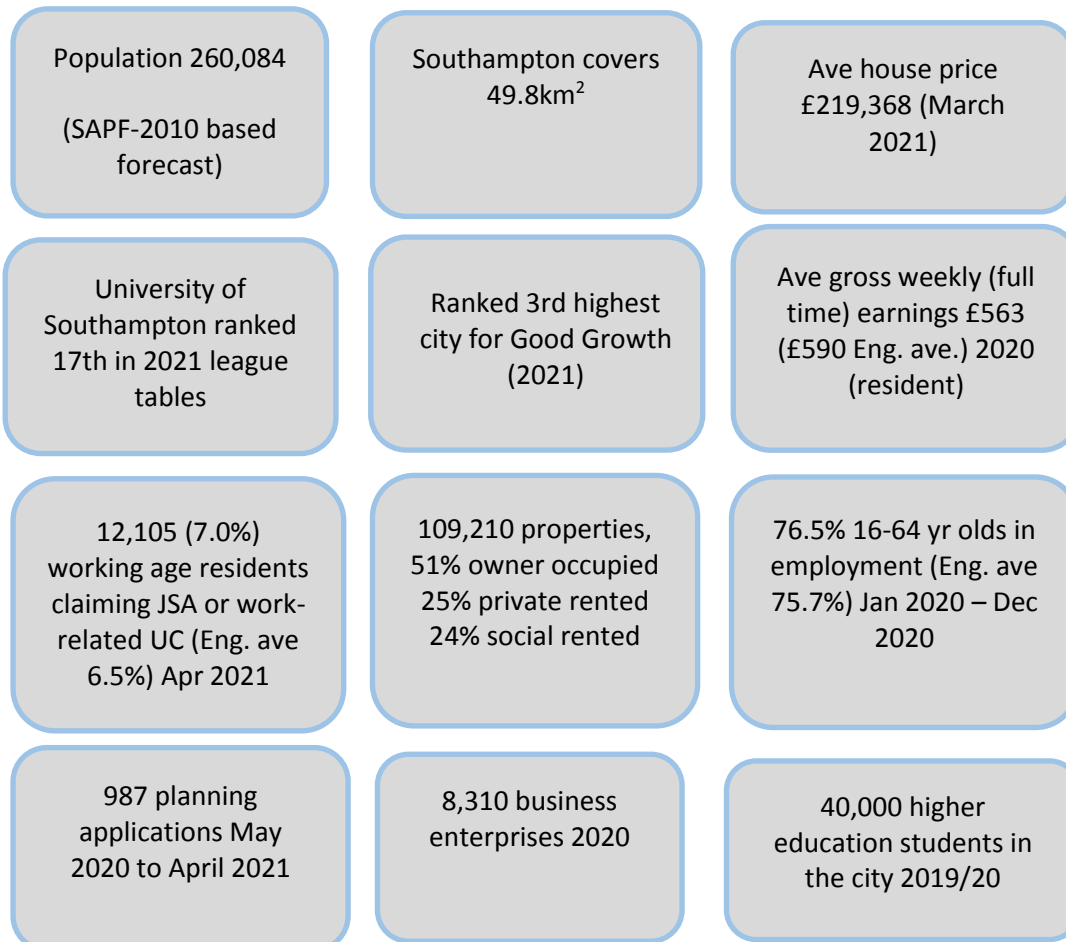
### 1. KEY FACTS ABOUT SOUTHAMPTON

Southampton has a unique sea city location with exceptional transport links, a strong position nationally for economic growth, an excellent reputation for teaching and learning, a strong business community, good regional specialist hospital, varied retail offer, night-time economy, vibrant voluntary and student communities and a rich and diverse cultural mix.

## NARRATIVE STATEMENT

There are a number of factors which affect the Council's services and its finances. Detailed below are some of the key facts and figures having a major impact on the Council's financial position in both the short and medium term:

### Key Statistics



Sources: Department for Work and Pensions (DWP), Office for National Statistics, Hampshire County Council, Annual Population Survey, Land Registry, PWC, and BRES.

### **Council related statistics**

- We maintain over 416 miles of highways and 53 parks and over 147 other green spaces and 75 eco areas "managed for wildlife" which cover over 95 hectares
- We also maintain 97 play areas, 24 Multi use games areas, 6 Skateparks and 7 Tennis courts and a mini-golf course
- We have 55,000 recorded Council trees (estimated 267,000 within total urban forest) and 290 hectares of woodland
- The trees are worth £1.3 million each year in ecosystem services they provide to the city and would cost more than £3 billion to replace their benefits in other ways
- We run 6 large libraries in Southampton and work in partnership with community organisations to support 5 more local libraries
- We provide 15,847 council houses
- We recycle, compost and reuse an estimated 26,300 tonnes of waste every year (data over the last 4 years 2016-20)

## NARRATIVE STATEMENT

- We provide long-term support for over 2,577 adults over 18
- We work with and support 76 schools in the city
- Nearly 7,000 children under 5 use our city's children's centres (over 14,000 visits per year) and we look after approximately 490 children who are in our care
- Over 1,750 Commercial Waste Customers and approx. 16,000 Garden Waste Customers
- Empty around 130,000 bins from households every week
- Service and maintain nearly 500 vehicles and over 500 pieces of plant and equipment
- We currently have 2,408 people which City Telecare support with telecare devices
- We have about 3,500 supported housing properties which have pull cords available
- The 60+ support service has provided Housing Related Support to over 474 clients during 2020/21 (not all long term – the aim is short term support)
- 1,362 monthly support plans were delivered by Housing Support Workers supporting older vulnerable residents
- We have 389 Extra Care properties in the city
- 3 x Green Flag awards for St. James Park, Riverside Park and the 5 Central Parks (as a collective award)

### **Southampton City Strategy 2020-25**

The Council's Corporate Plan 2020-2025 published in February 2020 sought "to provide for a city that is greener, fairer and healthier; a city of culture that is accessible to everyone. We will continue to develop Southampton as a modern, vibrant and sustainable city to live, work and visit. The city's infrastructure needs to support the economy by reducing congestion, overcoming barriers to jobs and opportunities, improving the environment, and building an infrastructure resilient to change.

Underpinning this is work to support us as a sustainable council, increasing our commercial opportunities to generate income, and ensuring we are both solid in our financial position and flexible enough to identify important trends and respond to a changing environment.

The Council's vision is that Southampton is a City of opportunity, with strategic goals being "Greener", "Fairer", "Healthier". These goals will be delivered through initiatives within the following themes below":



Our organisational values reflect the importance we place on behaviours, and the way we engage with customers, partners and colleagues.



Given the changes to the environment, including local political control, a revised corporate plan will be developed for July 2021.

## NARRATIVE STATEMENT

### 2. KEY FACTS ABOUT SOUTHAMPTON CITY COUNCIL

All of the factors in Section 1 help to shape the Council's priorities and provide a challenging environment for the Council to operate in. Potentially increasing demand on services and reducing the amount of income the Council can generate. Charged with directing the outcomes, priorities and policies of the Council are the 48 elected Councillors. The next section describes the political and management structure of the Council.

#### **Political Structure**

Southampton City Council is a unitary authority split into 16 wards each represented by 3 councillors. The expected May 2020 local elections were delayed due to the Covid pandemic, leaving the political structure during 2020/21 as follows:

Labour 30  
Conservative 18

#### **Council Executive Management Board**

Supporting the work of the elected members is the Council's Executive Management Board (EMB). The makeup of the team at the end of 2020/21 is detailed below. Note 26 shows the further detail of people that have been in a strategic post during 2020/21.

Chief Executive – ***Sandy Hopkins***

Executive Director – Business Services (Deputy Chief Executive) – ***Mike Harris***

Executive Director – Wellbeing (Children and Learning) – ***Robert Henderson***

Executive Director – Communities, Homes and Culture - ***Mary D'Arcy***

Executive Director – Place - ***Kate Martin***

Executive Director – Wellbeing (Health and Adults) – ***Grainne Siggins***

Executive Director - Finance & Commercialisation & S151 Officer – ***John Harrison***

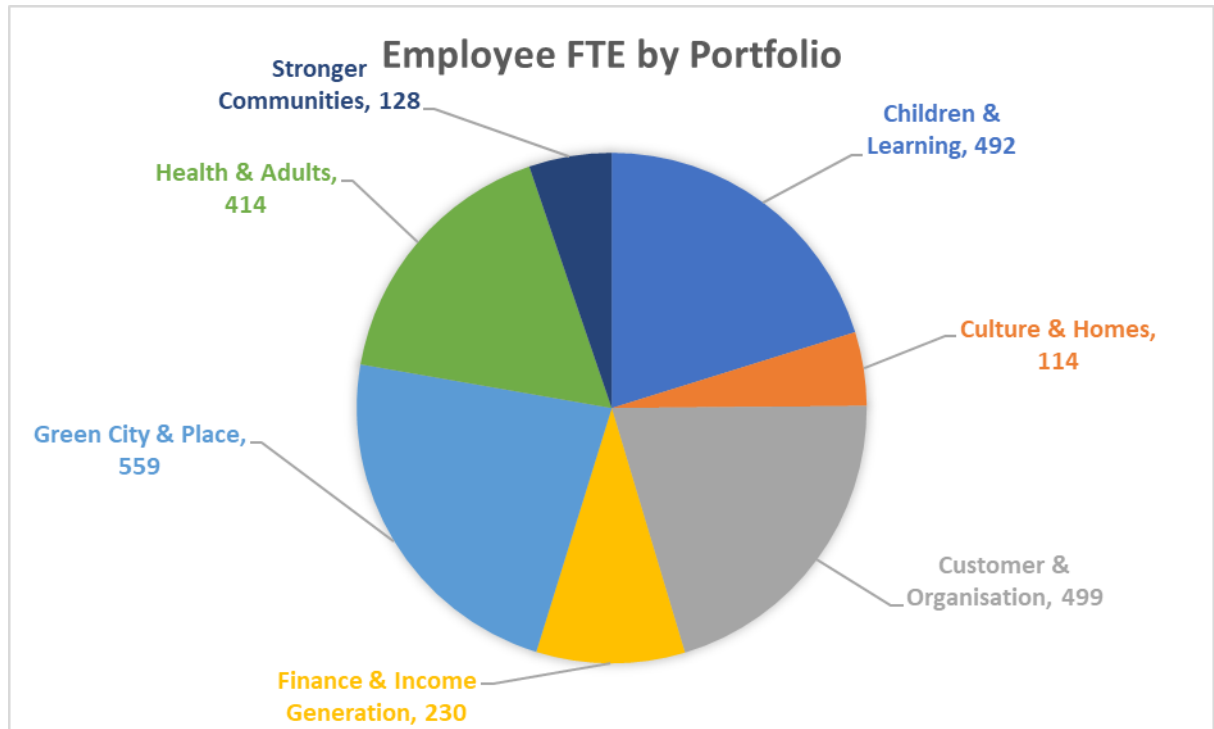
The team works together to set out the priorities and themes contained within the Southampton City Council Strategy.

#### **Staffing**

The Council employs circa 2,436 Full Time Equivalents to deliver these priorities (excluding school and Housing Revenue Account employees).

The following chart shows how these support the different Council services:

## NARRATIVE STATEMENT



In line with the Government guidance in relation to Covid-19, the Council adopted a policy of advising employees to work from home, where possible, from March 2020. This way of working is already within the Council's flexible working policies and an established way of working for a number of staff, albeit not to the level that was experienced in March 2020.

### The Council's Performance

The measures used to monitor and report on the authority's agreed corporate plan are given below, showing the performance taken from quarter 2 and 4 during the finance year, as well as the direction of travel and any comment as needed.

Communities, culture & homes	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments
<b>Success indicator</b>							
Percentage of people reporting feeling safe in the city – during the day	▲	2018/19	81.60%	-	85%	Improving	City Survey is carried out every two years
Percentage of people reporting feeling safe in the city – at night	▲	2018/19	39.60%	-	35%	Worsening	
Percentage of people reporting feeling a sense of belonging to the local area (very or fairly strongly)	▲	2017/18	72.80%	-	77%	Improving	
Number of new build affordable housing (including	▲	2019/20	51	Progressing in line with plan		Stable	274 homes under



## NARRATIVE STATEMENT

Green City								
Success indicator	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments	
acquisitions) owned by Local Authority							construction. 726 in the planning stages.	
Number of assessments made where homelessness was prevented or relieved (experimental)	▲	Q4 20/21	297	323	333	Improving	A total of 1,226 assessments made in year	
Metric tonnes of CO2e (new definition)	▼	New measure and baseline in development to be reported 2021/22						
Metric tonnes of CO2e (old definition)	▼	2018/19	14647.02 tonnes	13544.41 tonnes (2019/20)		Improving		
Recorded levels of nitrogen dioxide in the city's Air Quality Management Areas (ug/m3) (calendar year)	▼	2018	34.53	33.50 (2019)		Improving		
The number of weekday cycles on main cycle routes (where cycle counters are in place) cumulative	▲	2019/20	27,572	18,736	29,588	Improving		
The number of passengers using public transport (cumulative)	▲	2019/20	20,184,134	3,042,618	7,327,000	Worsening	Impact of the three lockdowns on bus travel has reduced patronage by over 60% over 2020/21.	
Increasing the number of trees planted	▲	Measure and baseline to be reported from 2021						
Number of wildflower meadows planted	▲	2019/20	8	Planting started Nov 2020	13	Improving	6 additional meadows planted this year	
Percentage of household waste sent for recycling	▲	2019/20	29.22%	28.86%	25.32%	Worsening		
Success indicator	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments	
Number of new homes built (housing completions)	▲	2019/20	460	Annual measure			Data available end of June 2021	
Percentage of year 12 and 13 in education, employment and training with accredited study	▲	2018/19	89.90%	88.10%	89.8%	Improving		
Reduced journey times (average journey time inbound across 8 main routes in the city)	▼	Nov 2019	14.03mins	Annual measure	11.34 mins	Improving	Data taken from March 2021 weekday peak	

## NARRATIVE STATEMENT

Reduced journey times (average journey time outbound across 8 main routes in the city)	▼	Nov 2019	13.16mins	Annual measure	11.25 mins	Improving	times
Apprenticeship starts (18-64 per 1,000)	▲	2018/19	9.74	5.02 (at 6 months)		Stable	There is a delay with the publication of government apprenticeship data
Increase in economic growth (Gross value added per head)	▲	2018	£31,023	£30,865 (2019 provisional)		Stable	The provisional figure for 2019 shows a slight drop from the 2018 baseline
<b>Wellbeing</b>	<b>Preferred direction of travel</b>	<b>Baseline period</b>	<b>Baseline data</b>	<b>2020/21 Q2</b>	<b>2020/21 Q4</b>	<b>Current direction of travel</b>	<b>Comments</b>
<b>Success indicator</b>							
Male gap in life expectancy at birth between most and least deprived neighbourhoods	▼	2016-18	6.4 years	7.9 years (2017-2019)	8.7 years (2018-2020)	Worsening	
Female gap in life expectancy at birth between most and least deprived neighbourhoods	▼	2016-18	4.1 years	3.6 years (2017-2019)	4.1 years (2018-2020)	Stable	
Proportion of city pupils known to be eligible for Free School Meals (primary)	▼	2018/19	21.90%	24.60%	31.4%	Worsening	
Proportion of city pupils known to be eligible for Free School Meals (Secondary)	▼	2018/19	20.40%	23.60%	28.5%	Worsening	
Percentage of people with eligible needs supported to live independently	▲	2019/20	76.66%	79.61%	79.10%	Stable	
Number of Looked After Children (per 10,000)	▼	2019/20	96	95	97	Stable	
Percentage of care leavers in touch and in suitable accommodation	▲	2019/20	84.10%	85.06%	82.35%	Worsening	
<b>Successful, sustainable business</b>	<b>Preferred direction of travel</b>	<b>Baseline period</b>	<b>Baseline data</b>	<b>2020/21 Q2</b>	<b>2020/21 Q4</b>	<b>Current direction of travel</b>	<b>Comments</b>
<b>Success indicator</b>							
Percentage customers very or fairly satisfied with the way Southampton City Council runs things	▲	2017/18	49.80%	City survey due Q4 date	68%	Improving	This is an 18% improvement from 2018.
Employee engagement scores	▲	2018	59/100	Annual measure	70/100	Improving	Data from the latest staff survey

## NARRATIVE STATEMENT

Percentage council spend with local suppliers	▲	2019/20	41.11%	41.16%	30.66%	Worsening	The profile of expenditure with local suppliers changed in Quarter 4 because of COVID-19 related matters and programme changes
Percentage of staff working flexibly	▲	2019/20	5%	81%	88%	Improving	Small improvement. The focus was on consolidating existing users, due to business need. Not all staff are able to work remotely
Total number of apprentices developing a career within SCC (existing employees)	▲	2019/20	94	113	122	Improving	
Number of days lost per employee to sickness absence	▼	2019/20	9.37 days	8.58 days	8.47 days	Improving	

### 3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The budget for the financial year 2020/21 was agreed at full council when it met on 26 February 2020 and a balanced budget was set that included around £7.6M of planned savings for the year. The following sections describe the actual performance against this budget and the financial strategies that were agreed at the same Council meeting.

The Council incurs both revenue and capital expenditure. The revenue account (known as the General Fund or GF) bears the net cost of providing day to day services. The capital account shows the net cost of transactions made to buy or sell land, property or other assets, build new property, make improvements and provide grants or loans to other bodies to undertake this type of activity.

The table below shows the Council's outturn position and variances from the current budget.

## NARRATIVE STATEMENT

General Fund Revenue Account: Outturn Position 2020/21	Budget 2020/21	Portfolio Outturn 2020/21	Outturn Variance 2020/21	
	£M	£M	£M	
<b>Portfolios</b>				
Children & Learning	46.96	57.24	10.29	A
Culture & Homes	8.79	10.96	2.18	A
Customer & Organisation	27.12	27.32	0.20	A
Finance & Income Generation	0.75	7.10	6.35	A
Green City & Place	23.25	30.95	7.70	A
Health & Adults	68.06	74.41	6.35	A
Stronger Communities	3.37	3.71	0.35	A
<b>Sub total for Portfolios</b>	<b>178.29</b>	<b>211.69</b>	<b>33.41</b>	<b>A</b>
Levies & Contributions	0.09	0.09	(0.00)	F
Capital Asset Management	6.02	5.38	(0.64)	F
Net Housing Benefit Payments	0.00	(0.11)	(0.11)	F
Other Expenditure & Income	6.80	(11.10)	(17.90)	F
<b>Net Council Expenditure</b>	<b>191.19</b>	<b>205.95</b>	<b>14.76</b>	<b>A</b>
<b>Financed By:</b>				
Council Tax	(102.28)	(102.28)	0.00	A
Business Rates	(54.57)	(54.57)	(0.00)	F
Non-Specific Government Grants & Other Funding	(34.34)	(57.72)	(23.38)	F
<b>Total Financing</b>	<b>(191.19)</b>	<b>(214.58)</b>	<b>(23.38)</b>	<b>F</b>
<b>Transfer to Reserves - Year End Surplus</b>		<b>8.63</b>	<b>8.63</b>	
<b>(Surplus)/Deficit</b>	<b>0.00</b>	<b>0.00</b>	<b>(0.00)</b>	

Numbers are rounded

Since the Council set its budget in February 2020 the financial pressure the council faces and future outlook has inevitably been fundamentally impacted by the Covid-19 pandemic, its effect on demand for council services and its wider economic impact.

The total overspend at Portfolio level amounted to £33.4M. Much of the overspend related to the impact felt from the pandemic, with the combined effects of additional pressure to spend, loss of income and delays to savings plans producing a total adverse pressure of £28.3M.

The most significant overspend related to the Children's and Learning Portfolio (£10.3M adverse), which was a product of a rise in the numbers and cost of looked after children, and additional expenditure relating to increased numbers of temporary social workers to deal with this increase and to cover vacancies.

The favourable variance for Other Expenditure & Income reflects the planned use of corporate funds and reserves to meet budget pressures and includes £6.9M of government support for COVID-19 which was carried forward from 2019/20. The favourable variance for non-specific grant (£23.4M) is mainly due to the receipt of COVID-19 LA Support Grant (tranches 2 – 4) (£15.5M) plus Fees and Charges Compensation (£7.4M).

The overall outturn for the council was a contribution to general reserves of £8.6M.

On-going significant pressure has been experienced in relation to both Adult Social Care and Children's Social Care services due in part to increasing demand and complexity of required services. This situation was made more severe during 2020/21 due to the pandemic, which not only impacted further on demand pressures but also meant savings plans in these areas were delayed as attention has focused on combating the impact of the pandemic.

## NARRATIVE STATEMENT

As part of setting the budget for 2020/21 the circumstances and risks around service spending pressures were recognised, with further funding provided and a reserve set up to cater for all forms of social care demand, which has been accessed during 2020/21 to help offset demand pressure for Children's Social Care but is also available going forward with an uncommitted balance of £7.4M as at 1 April 2021.

### Expenditure and Funding Analysis

It should be noted that an expenditure and funding analysis is included in the statutory accounts that helps to explain the difference between the way information is reported in year and the statutory reporting format required for the final accounts. This is called the Expenditure and Funding Analysis. This is detailed on page 28 and further in Note 8.

Expenditure is analysed below by category to explain further how the Council spends its resources.

	<b>Budget 2020/21</b>	<b>Portfolio Outturn 2020/21</b>	<b>Outturn Variance 2020/21</b>	
	<b>£M</b>	<b>£M</b>	<b>£M</b>	
Salaries & Wages	118.76	124.36	5.61	A
Premises Costs	13.00	10.62	(2.38)	F
Transportation Costs	6.65	6.66	0.01	A
Supplies & Services	99.68	173.65	73.96	A
Internal Charges	16.32	19.90	3.58	A
Other Direct Costs	220.44	247.68	27.25	A
<b>Total Expenditure</b>	<b>474.85</b>	<b>582.87</b>	<b>108.02</b>	<b>A</b>
Internal Income	(39.84)	(39.70)	0.14	A
Fees, Charges & Rents	(61.38)	(45.49)	15.89	A
Grants / Contributions	(199.19)	(285.98)	(86.80)	F
<b>Total Net Expenditure</b>	<b>174.44</b>	<b>211.69</b>	<b>37.25</b>	<b>A</b>

Numbers are rounded

*This analysis excludes HRA and Housing Benefit areas when compared to the EFA.*

### COLLECTION FUND

As the billing authority for Southampton, the City Council maintains a Collection Fund for the receipt and distribution of local taxes. The Council Tax element of the Collection Fund is credited with income from Council Tax payers and debited with the Council's call on the Fund plus the precepts of the Hampshire Police & Crime Commissioner and Hampshire Fire & Rescue Authority. The Fund is used to smooth the difference between the actual and budgeted amount of Council Tax collected each year. Any surplus or deficit on the Fund is reflected in the following years' Council Tax calculations. The Business Rates element of the Collection Fund operates in a broadly similar way. The Collection Fund as a whole has a deficit of £51.9M at 31 March 2021. Government grant funding has been received in 2020/21 towards the deficit, however the deficit is being recovered from the Council and other preceptors in future years. Under recommended accounting practice the £25.8M of Collection Fund support received by the Council has been transferred to the Revenue Grant Reserve to be used in 2021/22.

## NARRATIVE STATEMENT

### HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sale of Council houses and flats. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to or from the council tax payer. The HRA statements are included on pages 111 to 115.

#### HRA Outturn Position 2020/21

The table below shows the HRA outturn position.

Housing Revenue Account: Outturn Position 2020/21	Budget 2020/21	Outturn 2020/21	Outturn Variance 2020/21
	£M	£M	£M
<b><u>EXPENDITURE</u></b>			
Responsive Repairs	13.27	15.29	2.03 A
Housing Investment	5.19	3.80	(1.39) F
<b>Total Repairs</b>	<b>18.45</b>	<b>19.09</b>	<b>0.64 A</b>
Rents Payable	0.10	0.15	0.05 A
Debt Management	0.09	0.08	(0.00) F
Supervision & Management	22.52	22.86	0.34 A
Interest Repayments	5.09	4.78	(0.32) F
Principal Repayments	0.00	0.00	0.00
Depreciation	20.47	21.55	1.08 A
Capital Financing	8.89	7.19	(1.70) F
<b>TOTAL EXPENDITURE</b>	<b>75.61</b>	<b>75.69</b>	<b>0.09 A</b>
<b><u>INCOME</u></b>			
Dwelling Rents	70.24	70.48	(0.24) F
Other Rents	1.23	1.20	0.02 A
<b>Total Rental Income</b>	<b>71.47</b>	<b>71.69</b>	<b>(0.22) F</b>
Service Charge Income	3.26	2.47	0.78 A
Leaseholder Service Charges	0.88	1.54	(0.66) F
Interest Received	0.01	0.00	0.01 A
<b>TOTAL INCOME</b>	<b>75.61</b>	<b>75.69</b>	<b>(0.09) F</b>
<b>SURPLUS/(DEFICIT) FOR YEAR</b>	<b>0.00</b>	<b>0.00</b>	<b>(0.00)</b>
<b><u>BALANCES</u></b>			
Working Balance B/Fwd	2.00	2.00	0.00
Surplus/(deficit) for year	(0.00)	0.00	0.00
<b>WORKING BALANCE C/FWD</b>	<b>2.00</b>	<b>2.00</b>	<b>0.00</b>

Numbers are rounded

## NARRATIVE STATEMENT

### CAPITAL

The capital programme budget for the year, including changes approved under delegated powers, was £130.88M in total for the General Fund and HRA. Final capital spend for the year was £84.17M, this was £46.72M less than the budget, including slippage/re-phasing of £40.14M. This will be reflected in the post outturn update of the overall programme.

The table below shows the capital expenditure for the year against budget for each Portfolio:

Service	2020/21 Budget £M	2020/21 Expenditure £M	Variance £M
Children & Learning	17.24	14.16	3.08 F
Culture & Homes	1.03	0.07	0.97 F
Customer & Organisation	6.20	5.06	1.15 F
Finance & Income Generation	1.27	1.26	0.01 F
Green City & Place	55.76	27.91	27.86 F
Health & Adults	0.15	0.13	0.02 F
Stronger Communities	1.87	1.61	0.25 F
<b>Total General Fund Programme</b>	<b>83.53</b>	<b>50.20</b>	<b>33.33 F</b>
Housing Revenue Account	47.36	33.97	13.39 F
<b>Total Capital Programme</b>	<b>130.88</b>	<b>84.17</b>	<b>46.72 F</b>

Numbers are rounded

The final spend for the year was £46.72M lower than the budget. Of this, £40.14M was due to slippage/re-phasing on schemes, which will be spent in 2021/22 predominantly on the following schemes:

Integrated Transport	£18.75M
Other Environment	£3.74M
Highways	£2.26M
Townhill Park Infrastructure	£0.54M
Secondary Expansion	£1.00M
School Capital Maintenance	£0.76M
HRA - Making Homes Energy Efficient	£3.63M
HRA - Regeneration & New Build	£3.52M
Transformation Capital Programme	£0.98M

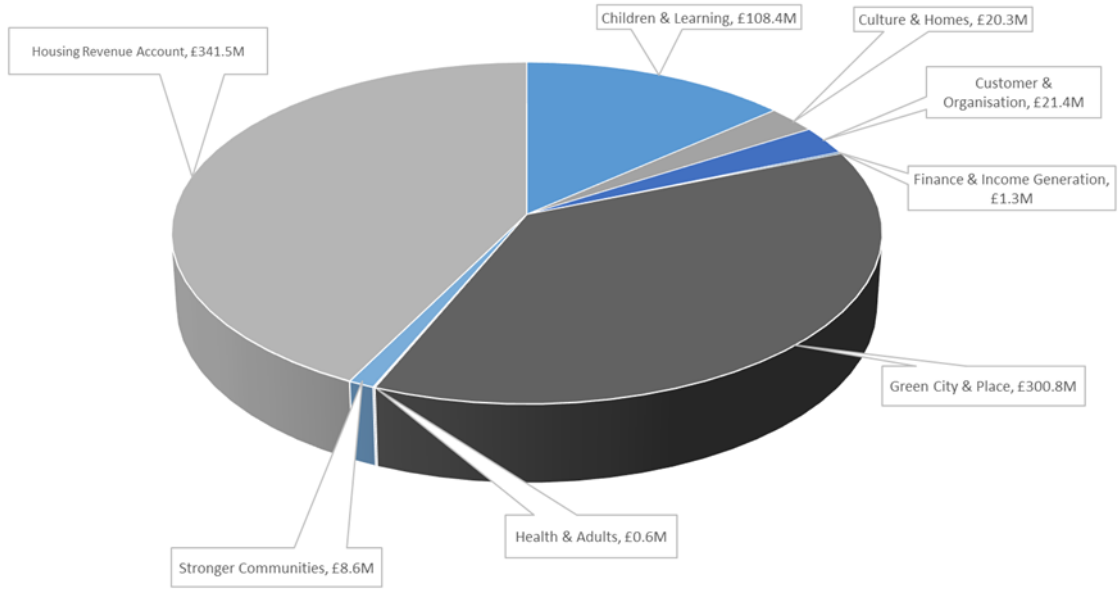
Numbers are rounded

### 5 Year Capital Programme

The current approved 5-year capital programme which totals £802.91M and its funding are shown in the following charts. The programme will be updated following outturn to incorporate any slippage, re-phasing and under/overspends.

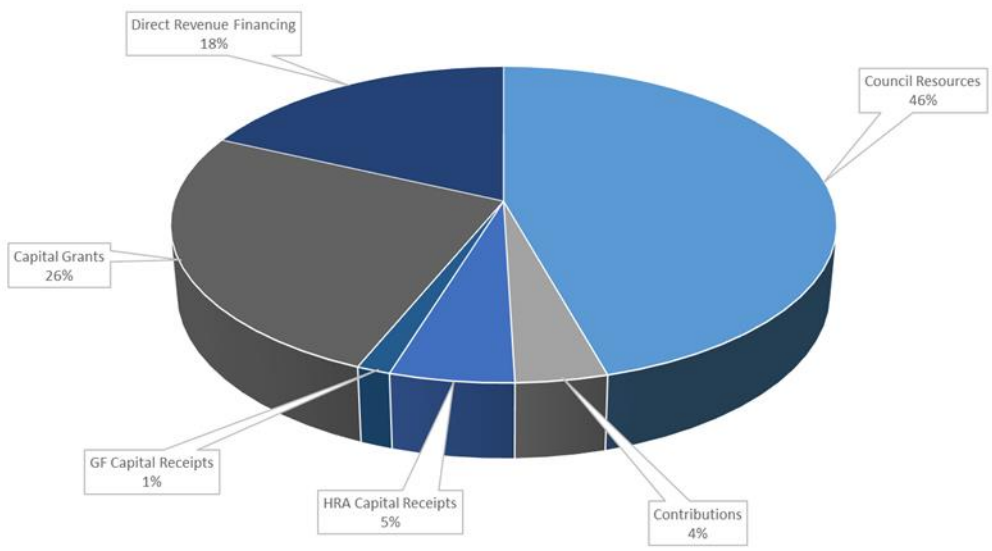
# NARRATIVE STATEMENT

**CAPITAL EXPENDITURE - 5 YEAR PROGRAMME 2020/21 - 2024/25**



Funded by:

**CAPITAL FUNDING - 5 YEAR PROGRAMME 2020/21 - 2024/25**





## NARRATIVE STATEMENT

### TREASURY MANAGEMENT

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Executive Director for Finance, Commercialisation & S151 Officer to make decisions on the management of the Council's debt and investment of surplus funds.

The current strategy, as outlined in the Council's agreed strategy, is that as we have an increasing borrowing requirement our overall intention is to minimise both external borrowing and investments and to only borrow to the level of the 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 Churches, Charities and Local Authorities (CCLA) property investment fund has generated returns of 4.25% against our original investment of £27M. There was a further fall in the estimated property value, when compared to the original investment value, of £0.19M (loss of £0.53M in 2019/20) The fair value for 2020/21 was £26.28M against the original £27M investment an estimated loss of £0.72M.

### RESERVES AND BALANCES

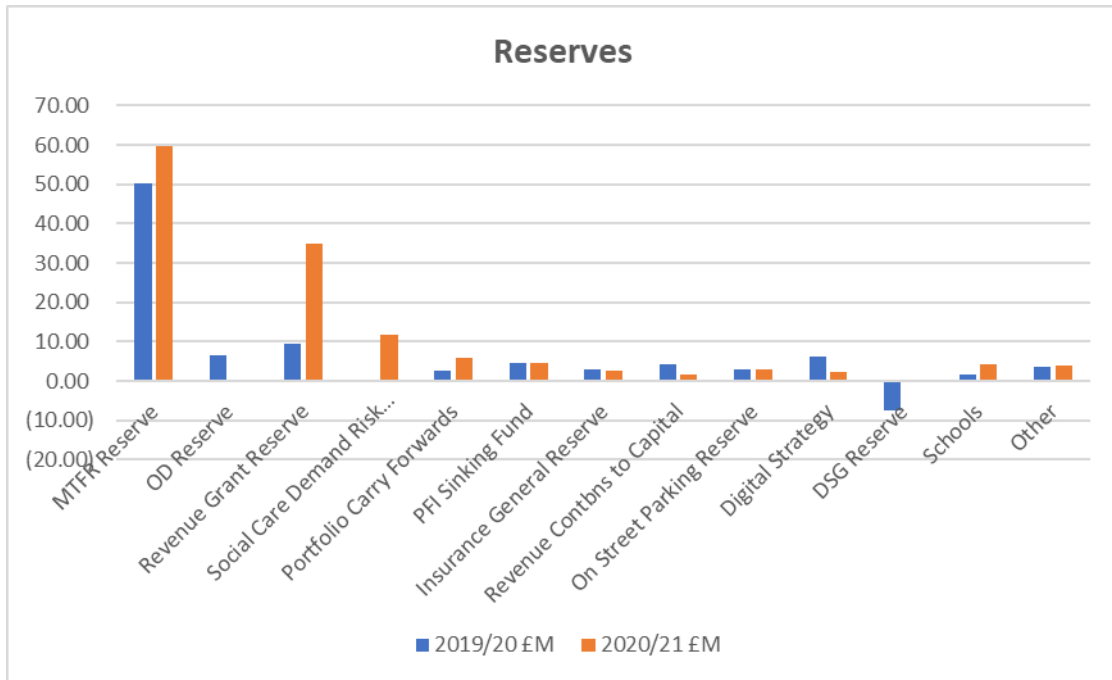
The Council maintains a number of useable reserves, as detailed in the Balance Sheet.

We aim to identify, within the MTFF, the financial risks facing the Council in the medium term. This includes assessing the risk of continuing reductions in central government funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the Council.

In light of the increasing level of risk and uncertainty identified with the MTFF and the increased probability of financial resources being required to support its delivery, it continues to be important that the Council maintains strong levels of reserves. Reserves were reviewed as part of the financial strategy agreed by the Council at its meeting in February 2021. The necessity for a robust level of reserves is reinforced by the financial pressures commencing in late 2019/20 and through all 2020/21 arising from the COVID-19 situation. Even though Government grant support has been made available to assist with the additional costs and loss of income, there is an expectation from Government that some degree of financial impact will be shouldered by local councils, and no financial support is available from Government for the impact the pandemic has had on setting back savings plans.

The graph below highlights the changes in the value of reserves between 31 March 2020 and 31 March 2021. It is important to note that the Revenue Grant Reserve has increased significantly, but this mainly reflects timing differences in accounting for business rates. The Government introduced arrangements to provide 100 per cent discounts to the business rates payable by the retail and hospitality sectors which were particularly badly hit by the pandemic's effects. In order that local government funding did not suffer as a consequence, the loss of revenue was fully recompensed by the government in 2020/21. The Council received £24.7M of additional grant for business rates foregone. However, the accounting arrangements for business rates mean that the shortfall experienced in 2020/21 will not be charged to the General Fund until 2021/22 and hence the additional grant has been added to reserves for this purpose. This sum is therefore committed in 2021/22 to make good the shortfall and does not represent additional resources available to the Council to spend on service provision.

## NARRATIVE STATEMENT



The Council's level for the General Fund Balance was reconsidered as a part of the budget setting process for 2021/22 and the required level of minimum balance, as determined by assessing the level of risk the Council faces, is considered to be £10M (the existing level).

## PRINCIPAL RISKS AND UNCERTAINTY

Risk management is an essential part the Council's overall governance arrangements in that it provides the framework and process to enable the organisation to manage risk in a systematic, consistent and efficient way. 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's 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 the Executive Management Board (Chief Executive and Executive Directors). The Strategic Risk Register is updated on a quarterly basis with the end of quarter position reported to and reviewed by the Executive Management Board. The identified 'strategic risks' are subject to change as new risks may emerge whilst others may become less significant as mitigating actions are implemented, or external factors change the nature of the risk.

The emergence of the Coronavirus pandemic has had a significant impact on the organisation in terms of new and emerging risks. In response, a separate Covid-19 Risk Register was developed and between May and September 2020 was subject to fortnightly review and reporting to the Executive Management Board - which reflected the rapidly changing nature of the risk and the responses required. In response to the move from the 'emergency response' phase, to 'stabilisation' and finally to 'recovery' phase the risks have now been subsumed into either the Strategic Risk Register or the 'Outbreak Control Plan Risk Log'. With the latter being managed by via the Health Protection Board.

## NARRATIVE STATEMENT

**Project and Programme Risk Management** -The need to identify and manage risk runs throughout the project and programme management process from initiation to implementation. Risk management is key component of project governance with individual risk logs developed in order to ensure that project sponsors/boards are aware of and understand the key risks associated with the delivery of the project.

**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.

### 4. AN EXPLANATION OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts brings together all the financial activities of the Council for the year and its financial position as at the 31 March 2021. It details both revenue and capital elements for both the General Fund and the HRA.

Local authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the Council is required to produce a set of accounts in order to inform stakeholders of the Council that we have properly accounted for all the public money we have received and spent and that the financial standing of the Council is on a secure basis.

A glossary of key terms can be found at the end of this document.

<b>Core Financial Statements:</b>	Page
<b>Responsibilities for the Statement of Accounts</b>	27
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
<b>Expenditure and Funding Analysis (Not a Core Financial Statement)</b>	28
The purpose of this statement is to report performance in a similar format used for reporting to management throughout the year.	
The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax (and rent) payers how the funding available to the Council (i.e. Government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices.	
The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's service portfolios. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.	
<b>Comprehensive Income and Expenditure Statement (CIES)</b>	29
This records all the Council's income and expenditure for the year. The statement analyses income and expenditure by service area as well as non-service specific or corporate transactions and funding. The format followed is provided by The Chartered Institute of Public Finance and Accountancy (CIPFA) so that comparisons of local authority accounts can be undertaken.	
<b>Movement in Reserves Statement (MiRS)</b>	30
This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves', (i.e. those that can be applied to fund expenditure or reduce local taxation), and other 'unusable' reserves which are set aside for specific purposes. As a local authority, special	

## NARRATIVE STATEMENT

dispensation is given to ensure some standard accounting entries such as depreciation do not affect the council tax payer. These amendments are shown as part of the MiRS.

### Balance Sheet

The Balance Sheet shows the value as at the 31 March 2021 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. 31

### Cash Flow Statement

This statement shows the reasons for changes in the Council's cash balances in year. Cash flows are classified as; 32

- Operating – this gives an indication of the extent to which services provided by the council are funded by way of taxation, grant income or payments from recipients of services
- Investing – how much income has been generated from resources held to contribute to future service delivery
- Financing activities - cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

**Notes to the Core Financial Statements (including Accounting Policies)** 33 – 110

**Housing Revenue Account (HRA)** 111 - 115

This account summarises the transactions relating to the provision, maintenance and sale of Council houses and flats.

**Collection Fund** 116 - 118

This statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.

**Glossary** 119 - 122

**Annual Governance Statement** 123 - 136

**Auditor's Report and Certificate** 137

## 5. ISSUES AND DEVELOPMENTS

### COVID-19 Pandemic

Southampton City Council has been playing a critical role in helping to lead the local response to COVID-19, both through its own services and via co-ordination with partner bodies such as the Local Resilience Forum (LRF) and others. The aim has been to save lives, protect the NHS, ensure our residents are protected, help support those residents who need to be shielded as part of particularly vulnerable groups in the community and that crucial public services continue to operate.

The Council responded quickly following the emergency announcement and subsequent restrictions imposed on 23 March 2020 and during 2020/21 has operated on an emergency footing, via the established procedure of Gold and Silver Command structures. Staff have been identified and re-deployed into emergency response activities.

The financial implications of COVID-19 were captured and reported regularly to the Ministry for Housing, Communities and Local Government (MHCLG) during the year.

The Council has received £22.9M of COVID-19 related general funding, spread over 4 tranches (of which £0.5M was applied in 2019/20). Furthermore, it is expected that the Council will receive £7.4M in support from Government through its compensation scheme for Sales Fees and Charges lost income. However, this only provides for 75% compensation, after deduction of a 5% allowance from budgets for volatility and

## NARRATIVE STATEMENT

it also does not provide any compensation for losses connected with property rents. No COVID-19 related government support has been provided for the Housing Revenue Account.

Further funding has been received from Government, in relation to financial support for specific services and measures, and these have been reported to Cabinet on a quarterly basis.

At the February 2020 Council meeting a very robust budget for 2020/21 was set, as well as financial plans for the following two years with financial resilience very much in mind. All COVID related adverse financial impacts have been managed, as they would with any other challenge, with sound financial management and stewardship of resources.

Part of the picture which provides for financial resilience are corporate sums which provide cover for all manner of risks, which include a general fund balance of £10.1M and a Medium Term Financial Risk Reserve so far not allocated of £36.5M.

The contingency within the 2021/22 budget was set at approx. £9.5M per the February budget papers agreed by Council. The HRA balance at 31 March 2021 was £2M and this remains available to support any additional costs specific to the Housing Revenue Account.

The Council has been either directly involved, or worked in partnership, to support many different initiatives designed to protect our communities, local business and vulnerable people to help overcome the pandemic crisis. During 2020/21, these measures included:

- Spent approx. £3M (grant funded) in 2020/21 on combating Covid via outbreak control and management measures.
- A 10% goodwill grant payment made to Adult Social Care providers (£2.1M) to ensure the market can cope with the number of clients needing support.
- Of the grants received from Government, £107.9M has been in the form of funding to administer and disperse to third parties, mainly including businesses. Both business support grants and business rates reliefs have been dispersed since March 2020. Business rate reliefs alone provided over 1,926 businesses with awards totalling £52.2M under the expanded retail, hospitality, non-essential retail and nursery schemes.
- Administered the scheme to provide £150 off the council tax bill for 2020/21 for those eligible within the Local Council Tax Support Scheme.
- Suspended recovery action across Council services during April and May for those unable to pay sums owed to the Council, in recognition of the financial challenges arising from the current crisis.
- Supported the homeless and rough sleepers to self-isolate in local accommodation.
- Administered around £2M from Government to help care homes implement and enhance their infection control measures.
- Funding additional staffing costs of around £2.2M, mainly for staff in both Adults and Children's Social Care as they responded to the crisis and support vulnerable clients.
- Approx. £0.3M for supplies acquired for personal protective equipment (PPE) usage, which ensured we reacted quickly to meet demand in periods of significant supply challenges to ensure that SCC's staff were able to access PPE throughout the pandemic period to ensure that our customers, staff and the public were kept as safe as possible.
- Ensuring the availability of emergency additional mortuary provision, provided jointly with other Hampshire authorities, as well as extra coroners costs, at around £0.5M.
- Operating the emergency food hub, initially located at the Guildhall then to St Mary's.
- Provided additional support for COVID safe Home to School Transport at a net extra cost of £0.4M.
- Implemented a local Test and Trace Service. Between 3 December 2020 and 20 April 2021, the service handled 1538 cases in total, approximately 14.51% of all positive cases in Southampton. The

## NARRATIVE STATEMENT

service successfully contacted 850 of these index cases and traced their close contacts. This service is anticipated to continue until June 2022, helping the city overcome the pandemic.

- Taking a positive and pragmatic stance on the opportunity provided by the pandemic to deliver the highways capital programme early during lockdown periods in order to minimise disruption to road users, support economic recovery and aid efficient expenditure control
- Adjusted the Social Value and Green City Procurement Policy Framework to support economic and local recovery through procurement activities.

During the pandemic, the Government has sought to assist cash flow of all local councils 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).

The level of uncertainty about the impact of the crisis and its duration, coupled with an uncertain funding position for the ongoing financial impact faced, means the financial position in future years is unclear. The Council's Medium Term Financial Forecast will be regularly reviewed, and as part of the February 2021 budget report to Council highlighted an anticipated shortfall of around £22.5M for 2022/23. Work has started early to address this shortfall, however, the Council has a good degree of financial strength, as evidenced by the recent CIPFA resilience index.

The work needed to support the recovery from the public health crisis and its consequential economic effects are being addressed in tandem with the Local Resilience Forum and through partnership working with local authorities across Hampshire.

### Transforming Cities Fund (TCF)

As part of the 2020 National Budget, the Chancellor announced in March 2020 the outcome of the Industrial Strategy's Transforming Cities Fund (TCF). Southampton City Council and Hampshire County Council submitted a joint bid for the Southampton City Region, which was awarded £57M of Government funding towards the project and covers the three years to March 2023.

There are three different types of schemes included in the grant award – Cycling, Active Travel Zones/Mobility Hubs and Rapid Bus/Intelligent Transport systems. In addition to these, there are a number of city centre schemes which have been grouped separately due to their overarching nature, containing all of the above elements. These will be delivered in conjunction with and complementing the other schemes

Significant progress has been made in 2020/21 and projects completed during the year include the Bevios Valley and West Quay Road cycle schemes, along with bus lane improvements on Mountbatten Way. Regular progress updates and more information on current and future schemes can be found at <https://transport.southampton.gov.uk/transforming-cities/>.

### IT Investment Plan

The Council agreed a five-year investment plan for IT and Digital services in November 2020 that has been created to ensure that work started through the Desktop Refresh and Smart Ways of Working projects is completed and that there is a clear plan for ongoing investment in IT and Technology through to 2025.

The Investment Plan will enable a continuation of service improvements and ensure that high-quality, effective IT services can be delivered in future years. It also enables front-line services to plan properly for the service improvements they need that depend on modern IT infrastructure and systems.

To support this plan, a total of £8.5M was added to the capital programme plus a further £4.1M of revenue costs have been agreed and allowed for in the Council's Medium Term Financial Forecast.

The Investment Plan has been developed in conjunction with all services across the council and therefore represents the technology requirements to allow ongoing development of service area applications and digital solutions for the Housing, Council Tax, Social Care, Revenues and Benefits services, as well as addressing underlying IT infrastructure requirements. The Investment Plan represents a significant investment in IT and Digital services but one that will enable on-going significant improvements in service

## NARRATIVE STATEMENT

delivery. Adopting and exploiting new technologies such as robotics, automation and AI will ensure that Southampton remains at the forefront of technology and digital services.

### Potters Court

Work on the Potters Court Development was completed during 2020/21. With 83 one and two-bedroom flats, Potters Court is the largest housing with care scheme in Southampton, offering independent living for older people with care and support needs. Potters Court is designed for older adults (either single people or couples) who have a housing need, as well as care and support needs. The project is HRA funded (charging affordable rents) and enables greater independence for residents through modern living with support (e.g. telecare and wheelchair accessibility) for residents.

The development will also contain a restaurant and health and wellbeing suite, which will be open to the local community to enjoy, plus communal lounges, gardens, laundry and IT facilities.

Housing with care provides residents with the privacy and independence of their own flat, plus the reassurance of onsite support and 24-hour care. The care and support packages are tailored to how much or how little is required; residents with significant care needs, including those with cognitive impairments such as dementia, can be supported, as well as those who are more independent but would still benefit from the supportive environment the complex offers. Staff are available to check on people's wellbeing and help in emergencies (such as falls or unexpected illness) throughout the day and night, offering peace of mind.

### City of Culture

During 2020/21, at full Council there was unanimous support to agree the commitment and necessary funding to bid for City of Culture status for 2025. This has the capacity to be a major development, raising the profile of the city and giving long term economic benefits; opportunities for young people; regional, national and international profile raising for the City as well as helping to address the social needs of our city, using culture as a catalyst to bring the City together and drive change.

### Itchen Bridge

A contactless payment option was introduced for Itchen Bridge during 2020/21. New card readers were installed at the payment booths to provide convenient option for people making the crossing.

### Home working/online meetings

The Council adapted its processes and IT set up to quickly facilitate staff to comply with the Government expectation of home working where you can. During 2020/21, the Council was able to support an additional 1800 number of staff work from home regularly. Capacity of the remote connection was more than quadrupled and new technology implemented to make it more reliable and increase the range of services available outside of the office. Roll out of office 365 and use of teams was accelerated to support this enhanced capacity, which was a part of existing plans, but which had to be much more quickly implemented than previously anticipated. 3,500 staff are now connected via the Microsoft 365/Teams platforms across a range of services including front line workers.

### Starboard Way (Oaklands Development)

In July 2019, the Council agreed to proceed with the development of the Former Oakland's Community School site which will provide 103 new homes, at an expected cost of £17.4M. Construction has therefore been underway during 2020/21.

Formerly known as Oaklands, Starboard Way is a development of 103 new council-owned homes off Fairisle Road in Lordshill featuring a mixture of council-rented and shared-ownership homes, while a proportion will also be made available to residents with care needs.

## NARRATIVE STATEMENT

Starboard Way is set to complement the surrounding area and offer a contemporary street scene by including:

- Semi-detached pairs, short terraces and small blocks of two and three-storey flats
- A mixture of roof designs
- A range of energy-efficient features, such as solar panels
- Areas of formal and informal play across the site
- A cycle path will be rerouted through the development
- Electric charging points in car parking areas, plus improved electrical infrastructure (including substation upgrade) for houses to have the option for these to be installed at a later date

### Accounting issues

There have been no significant changes to the Code of Practice on Local Authority Accounting for 2020/21. A change in legislation now requires the deficit on the Dedicated Schools Grant to be held in an unusable reserve (see note 22(f)). The implementation of International Financial Reporting Standard (IFRS) 16 *Leases*, previously expected to be applied from 2020/21, has been deferred for a further year until 2022/23.



# STATEMENT OF RESPONSIBILITIES

## 1. The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Section 151 (S151) Officer.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve the Statement of Accounts.

## 2. The Section 151 Officer's Responsibilities

The Council's S151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance (CIPFA)/ The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts the S151 Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Local Authority Code (any significant non-compliance being fully disclosed)

The S151 Officer has also:

- Kept proper accounting records, which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

## 3. Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of Southampton City Council at 31 March 2021 and of its income and expenditure for the year ended 31 March 2021.

Signed **J Harrison** \_\_\_\_\_ Date  
Section 151 Officer

## 4. Approval of the Accounts

I certify that the Statement of Accounts has been approved by a resolution of the Governance Committee in accordance with the Accounts and Audit (England) Regulations 2015 and is authorised for issue.

Signed **D Fuller** \_\_\_\_\_ Date  
Chair, Governance Committee

# THE FINANCIAL STATEMENTS

## Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) is a note showing how the annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further information is contained in Note 8 on page 54.

<u>2019/20 Restated</u>				2020/21		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
55,991	21,427	77,418	Children & Learning	57,244	11,476	68,720
8,087	3,159	11,246	Culture & Homes	10,962	2,724	13,686
26,906	6,543	33,449	Customer & Organisation	27,323	3,051	30,374
8,698	1,839	10,537	Finance & Income Generation	7,096	5,461	12,557
22,499	5,108	27,607	Green City & Place	30,948	7,242	38,190
62,255	3,323	65,578	Health & Adults	74,408	(4,750)	69,658
(15,508)	(30)	(15,538)	Housing Revenue Account (HRA)	(12,970)	3,394	(9,576)
1,821	1,266	3,087	Stronger Communities	3,714	712	4,426
(642)	(580)	(1,222)	Housing Benefit	(113)	205	92
0	1,482	1,482	Other Income & Expenditure	0	(2,113)	(2,113)
			<b>Other items of expenditure and income:</b>			
0	(3,721)	(3,721)	Correction for Housing Improvement Loans	0	0	0
0	13,979	13,979	Revaluation & Impairment of General Fund Assets	0	3,493	3,493
0	18,383	18,383	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	0	(42,021)	(42,021)
<b>170,107</b>	<b>72,178</b>	<b>242,285</b>	<b>Cost of Services</b>	<b>198,612</b>	<b>(11,126)</b>	<b>187,486</b>
<b>(169,204)</b>	<b>(41,231)</b>	<b>(210,435)</b>	<b>Other Income &amp; Expenditure</b>	<b>(245,398)</b>	<b>42,561</b>	<b>(202,837)</b>
<b>903</b>	<b>30,947</b>	<b>31,850</b>	<b>(Surplus)/Deficit</b>	<b>(46,786)</b>	<b>31,435</b>	<b>(15,351)</b>
<b>(98,732)</b>			<b>Opening General Fund Balance</b>	<b>(97,829)</b>		
<b>(2,000)</b>			<b>Opening HRA Balance</b>	<b>(2,000)</b>		
<b>903</b>			<b>Less/Plus Deficit/(Surplus) on General Fund</b>	<b>(46,786)</b>		
<b>0</b>			<b>Less/Plus Deficit/(Surplus) on HRA</b>	<b>0</b>		
<b>(97,829)</b>			<b>Closing General Fund Balance</b>	<b>(144,615)</b>		
<b>(2,000)</b>			<b>Closing HRA Balance</b>	<b>(2,000)</b>		
<b>(99,829)</b>			<b>Closing General Fund &amp; HRA Balance</b>	<b>(146,615)</b>		

# THE FINANCIAL STATEMENTS

## Comprehensive Income and Expenditure Statement

<u>2019/20 Restated</u>				<u>2020/21</u>			
<u>Expenditure</u>	<u>Income</u>	<u>Net</u>		<u>Expenditure</u>	<u>Income</u>	<u>Net</u>	
<u>£000</u>	<u>£000</u>	<u>£000</u>		<u>Notes</u>	<u>£000</u>	<u>£000</u>	
234,993	(157,575)	77,418	Children & Learning		240,322	(171,602)	68,720
16,941	(5,695)	11,246	Culture & Homes		18,132	(4,446)	13,686
37,048	(3,599)	33,449	Customer & Organisation		33,976	(3,602)	30,374
18,061	(7,524)	10,537	Finance & Income Generation		24,131	(11,574)	12,557
54,224	(26,617)	27,607	Green City & Place		57,230	(19,040)	38,190
116,258	(50,680)	65,578	Health & Adults		130,069	(60,411)	69,658
63,484	(79,022)	(15,538)	Housing Revenue Account (HRA)		70,844	(80,420)	(9,576)
11,070	(7,983)	3,087	Stronger Communities		12,180	(7,754)	4,426
71,441	(72,663)	(1,222)	Housing Benefit		71,142	(71,050)	92
1,730	(248)	1,482	Other Income & Expenditure		512	(2,625)	(2,113)
			<b>Other items of expenditure and income:</b>	6			
(3,721)	0	(3,721)	Correction for Housing Improvement Loans		0	0	0
13,979	0	13,979	Revaluation & Impairment of General Fund Assets		3,493	0	3,493
18,383	0	18,383	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings		(42,021)	0	(42,021)
<b>653,891</b>	<b>(411,606)</b>	<b>242,285</b>	<b>Cost of Services</b>	8	<b>620,010</b>	<b>(432,524)</b>	<b>187,486</b>
9,217	(12,132)	(2,915)	Loss/ (Gain) on the disposal of Non Current Assets	12c	13,575	(4,478)	9,097
83	0	83	Contributions to Other Local Public Bodies		86	0	86
4,152	0	4,152	Contributions of Housing Capital Receipts to Government Pool		1,160	0	1,160
<b>13,452</b>	<b>(12,132)</b>	<b>1,320</b>	<b>Other Operating Expenditure</b>		<b>14,821</b>	<b>(4,478)</b>	<b>10,343</b>
16,172	(7,903)	8,269	Income and Expenditure in relation to Investment Properties and changes in their fair value	14	6,779	(6,170)	609
18,159	0	18,159	Interest payable and similar charges	11	16,657	0	16,657
0	(785)	(785)	Interest and Investment Income	11	0	(1,854)	(1,854)
10,648	0	10,648	Net interest on the defined benefit liability (asset)	34b	11,063	0	11,063
<b>44,979</b>	<b>(8,688)</b>	<b>36,291</b>	<b>Financing, and Investment Income &amp; Expenditure</b>		<b>34,499</b>	<b>(8,024)</b>	<b>26,475</b>
0	(98,307)	(98,307)	Council Tax Income		0	(103,514)	(103,514)
0	(81,437)	(81,437)	Business Rates		0	(26,937)	(26,937)
0	(13,807)	(13,807)	General Government Grants	37c	0	(58,390)	(58,390)
0	0	0	S31 Business Rates Grant for COVID-19 Reliefs	6, 37c	0	(25,586)	(25,586)
0	(54,495)	(54,495)	Capital Grants and Contributions	37b	0	(25,228)	(25,228)
<b>0</b>	<b>(248,046)</b>	<b>(248,046)</b>	<b>Taxation and Non-Specific Grant Income</b>		<b>0</b>	<b>(239,655)</b>	<b>(239,655)</b>
<b>712,322</b>	<b>(680,472)</b>	<b>31,850</b>	<b>Deficit/(Surplus) on the Provision of Services</b>		<b>669,330</b>	<b>(684,681)</b>	<b>(15,351)</b>
		(35,094)	Deficit/(Surplus) on revaluation of non current assets	22a			(15,107)
		0	Impairment losses/(gains) on non-current assets charged to the revaluation reserve	22a			0
		8,970	Remeasurements of the net defined benefit liability (asset)	34b			61,780
		<b>(26,124)</b>	<b>Other Comprehensive (Income)/Expenditure</b>				<b>46,673</b>
		<b>5,726</b>	<b>Total Comprehensive Expenditure</b>				<b>31,322</b>

# THE FINANCIAL STATEMENTS

## Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2020	(10,066)	(87,763)	(2,000)	0	(24,089)	0	(50,633)	(174,551)	(776,501)	(951,052)
<b>Movement in Reserves during 2020/21</b>										
Total Comprehensive Income and Expenditure	30,223		(45,574)					(15,351)	46,673	31,322
Adjustments between accounting basis and funding basis under regulations (note 10)	(77,009)		45,574		13,433	(2,497)	1,881	(18,618)	18,618	0
Transfers to / (from) earmarked reserves (note 9)	46,786	(46,786)						0		0
<b>(Increase) / Decrease in Year</b>	<b>0</b>	<b>(46,786)</b>	<b>0</b>	<b>0</b>	<b>13,433</b>	<b>(2,497)</b>	<b>1,881</b>	<b>(33,969)</b>	<b>65,291</b>	<b>31,322</b>
Balance at 31 March 2021	(10,066)	(134,549)	(2,000)	0	(10,656)	(2,497)	(48,752)	(208,520)	(711,210)	(919,730)

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2019	(10,066)	(88,666)	(2,000)	0	(24,314)	0	(29,230)	(154,276)	(802,502)	(956,778)
<b>Movement in Reserves during 2019/20</b>										
Total Comprehensive Income and Expenditure	26,388		5,462					31,850	(26,124)	5,726
Adjustments between accounting basis and funding basis under regulations (note 10)	(25,485)		(5,462)		225		(21,403)	(52,125)	52,125	0
Transfers to / (from) earmarked reserves (note 9)	(903)	903						0		0
<b>(Increase) / Decrease in Year</b>	<b>0</b>	<b>903</b>	<b>0</b>	<b>0</b>	<b>225</b>	<b>0</b>	<b>(21,403)</b>	<b>(20,275)</b>	<b>26,001</b>	<b>5,726</b>
Balance at 31 March 2020	(10,066)	(87,763)	(2,000)	0	(24,089)	0	(50,633)	(174,551)	(776,501)	(951,052)

# THE FINANCIAL STATEMENTS

## Balance Sheet

<u>31 March 2020</u>		<u>Notes</u>	<u>31 March 2021</u>
£000			£000
1,461,929	Property, Plant & Equipment	12	1,527,916
190,249	Heritage Assets	13	190,249
118,145	Investment Properties	14	113,098
7,045	Intangible Assets	15	8,720
29,502	Long Term Investments	17b	27,310
3,733	Long Term Debtors	18	3,625
<b>1,810,603</b>	<b>Non Current Assets</b>		<b>1,870,918</b>
436	Short Term Investments	17b	2,434
0	Assets held for Sale	16	0
907	Stock (Inventories)		1,091
47,590	Short Term Debtors	18	71,524
31,217	Cash & Cash Equivalents	19	30,130
<b>80,150</b>	<b>Current Assets</b>		<b>105,179</b>
(4,352)	Cash & Cash Equivalents	19	(2,475)
(364)	Deferred Liabilities	38	(364)
(55,214)	Short Term Borrowing	17b	(28,417)
(72,857)	Short Term Creditors	20	(126,274)
(8,773)	Provisions	21	(5,936)
<b>(141,560)</b>	<b>Current Liabilities</b>		<b>(163,466)</b>
(51,002)	Long Term Creditors	17b	(47,556)
(6,516)	Provisions	21	(5,383)
(222,597)	Long Term Borrowing	17b	(213,847)
	Other Long Term Liabilities		
(13,462)	- Deferred Liabilities	38	(13,098)
(12,418)	- Cap. Grants & Conds Receipts in Advance	37a	(26,298)
(492,146)	- Pension Fund Liability	34c	(586,719)
<b>(798,141)</b>	<b>Long Term Liabilities</b>		<b>(892,901)</b>
<b>951,052</b>	<b>Net Assets</b>		<b>919,730</b>
	<b>Useable Reserves</b>		
(24,089)	Useable Capital Receipts Reserve	10	(10,656)
(50,633)	Cap. Grants & Conds Unapplied	10	(48,752)
(87,763)	Earmarked Revenue Reserves	9	(134,549)
(10,066)	General Fund Balance	10	(10,066)
(2,000)	Housing Revenue Account Balance	10	(2,000)
0	HRA Major Repairs Reserve	10	(2,497)
<b>(174,551)</b>			<b>(208,520)</b>
	<b>Unuseable Reserves</b>		
(411,319)	Revaluation Reserve	22a	(414,815)
531	Pooled Fund Adjustment Account		719
(861,080)	Capital Adjustment Account	22b	(922,500)
113	Financial Instruments Adjustment Account		38
492,146	Pension Reserve	22c	586,719
1,159	Collection Fund Adjustment Account	22d	25,790
1,949	Accumulated Absences Account	22e	3,905
	Dedicated Schools Grant Adjustment Account	22f	8,934
<b>(776,501)</b>			<b>(711,210)</b>
<b>(951,052)</b>	<b>Total Reserves</b>		<b>(919,730)</b>

# THE FINANCIAL STATEMENTS

## Cash Flow Statement

<u>2019/20</u>		<u>2020/21</u>
£000		Notes      £000
(31,850)	Net surplus or (deficit) on the provision of services	15,351
98,271	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a) 112,804
<u>(69,872)</u>	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a) <u>(35,660)</u>
<b>(3,451)</b>	<b>Net Cash Flows From Operating Activities</b>	<b>92,495</b>
(22,353)	Net Cash flows from Investing Activities	23 c) (30,653)
29,890	Net Cash flows from Financing Activities	23 d) <u>(61,052)</u>
<b>4,086</b>	<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>	<b>790</b>
22,779	Cash and cash equivalents at the beginning of the reporting period	23 e) 26,865
<u><b>26,865</b></u>	<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	23 e) <u><b>27,655</b></u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Accounting Policies

### a) General Principles

These Financial Statements summarise the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 (as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021), which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

The accounts are prepared on a going concern basis, that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription, and there is no notice from Government to that effect.

The Council carried out a detailed assessment of the likely impact of COVID-19 on its financial position for 2021/22 and considered its likely impact on future years as part of its medium term financial planning. Whilst the budget for 2021/22 was balanced, the medium term financial forecast indicates a budget shortfall of £22.5M for 2022/23. This is being addressed through work during 2021/22 to review the budget, the financial pressures faced and opportunities for savings. There is headroom available within reserves that could be used to help balance the budget in the short term if measures identified do not address the full extent of the shortfall.

The Council has also undertaken cashflow forecasting for the foreseeable future period. Our projections for the revenue budget show that the Council has sufficient liquidity over the period to the end of September 2022, with positive cash balances throughout. There is no identified need for borrowing to manage the working capital for revenue balances. The Council does have a significant capital programme for the same period and there was always an intent to borrow, from the PWLB, as one of a source of funds for this programme. When taken into the cashflow forecast this situation does not change and PWLB borrowing will be required. The timing and extent of the capital programme is being reviewed as part of the in-year budget review, however we are of the view that PWLB loans will be available if required.

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

### b) Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for retrospectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract

## NOTES TO THE CORE FINANCIAL STATEMENTS

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature within one working day from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk or change in value.

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

### d) Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

### e) Charges to Revenue for Non-current Assets

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the "Minimum Revenue Provision", by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### f) Council Tax and Non-Domestic Rates (NDR)

The Council acts as an agent, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as a principal, collecting Council Tax and NDR for itself. Billing authorities are required by statute to maintain a separate fund (the "Collection Fund") for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative

## NOTES TO THE CORE FINANCIAL STATEMENTS

framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

### *Accounting for Council Tax and NDR*

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

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

### **g) Dedicated Schools Grant Deficit**

The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2020 establish new accounting practices in relation to the treatment of local authorities' schools budget deficits such that where a local authority has a deficit on its schools budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account. Instead the deficit (including the accumulated deficit as at 31 March 2020) is charged to an unusable reserve the Dedicated Schools Grant Adjustment Account by a transfer from the General Fund Balance in the Movement in Reserves Statement.

### **h) Employee Benefits**

#### *Benefits Payable during Employment*

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of Teacher's annual leave entitlement not taken by the year end, in accordance with CIPFA's methodology. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MiRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. An accrual has also been made in 2020/21 in respect of annual leave carried forward by non-teaching staff as carry forward balances were much higher than in previous years due to COVID-19.

#### *Termination Benefits*

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

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

#### *Post-Employment Benefits*

Employees of the Council are predominantly members of two separate pension schemes:

## NOTES TO THE CORE FINANCIAL STATEMENTS

- The Local Government Pension Scheme, administered by Hampshire County Council; and
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.

### *Local Government Pension Scheme*

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefit scheme:

- The liabilities of the Hampshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates etc, and projections of earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate based on the AA corporate bond rate as required by the Code
- The assets of the Hampshire County Council pension fund attributable to the Council are included in the balance sheet at fair value:
  - Quoted securities – Current bid price.
  - Unquoted securities – Professional estimate.
  - Unitised securities – Current bid price.
  - Property – Market value.

The change in the net pensions' liability is analysed into the following components:

### *Service Cost comprising:*

- Current Service Cost – The increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
- Past Service Cost – The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement; and
- Net Interest on the Net Defined Benefit Liability (Asset) – i.e. Net interest expense for the Council. The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments.

### *Remeasurements comprising:*

- Return on Planned Assets – Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure
- Actuarial Gains and Losses – Changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pension Reserve as Other Comprehensive Income and Expenditure; and
- Contributions Paid to Hampshire County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to

## NOTES TO THE CORE FINANCIAL STATEMENTS

the relevant accounting standards. In the MiRS this means there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### *Teachers' Pension Scheme*

Liabilities for the Teachers' scheme benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme, and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service line with the Comprehensive Income and Expenditure Statement is charged in year.

### **i) Events after the Reporting Period**

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

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

Events taking place after the date of authorisation for issue are not reflected in the Financial Statements.

### **j) Financial instruments**

#### *Financial Liabilities*

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### *Financial Assets*

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

- amortised cost
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI) – not applicable to the Council.

#### Financial Assets Measured at Amortised Cost

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

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

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the Council. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Where credit risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where credit risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

#### Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

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

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

### **k) Government Grants and Other Contributions**

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the

## NOTES TO THE CORE FINANCIAL STATEMENTS

relevant service line (attributable revenue grants and contributions) or the Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) line in the Comprehensive Income and Expenditure Statement.

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

### *Business Improvement District (BID)*

The “Go Southampton” BID is a 5-year scheme that commenced in April 2017 and applies across the City Centre. The scheme is funded by an annual levy paid by around 600 non-domestic ratepayers in that area. The Council acts as agent under the scheme.

### *Community Infrastructure Levy (CIL)*

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

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

## **I) Heritage Assets**

The Council’s Heritage Assets are mainly held in the Council’s museums, although a number of Ancient Monuments (including the City Walls) are also held.

Heritage Assets are held principally for their contribution to knowledge and/or culture. They are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below.

### *Heritage Assets on the Balance Sheet*

- Works of Art – the Art Collection, which includes paintings (both oil and watercolour), sketches, and sculptures, is ‘designated’ (i.e. officially recognised as significant) and numbers approximately 3,500 items, most of which have been acquired through donations.
- The Collection has been brought onto the Balance Sheet based on Insurance Values.
- Ancient Monuments – the Council has some Ancient Monuments including:
  - The Bargate; and
  - Town Walls and various Vaults.

The Council’s Ancient Monuments have been brought onto the Balance Sheet based on Historical Cost.

### *Heritage Assets not on the Balance Sheet*

- Archaeology – The main component of the Archaeology Collections is the excavation archives which result from all archaeological investigations carried out within the City boundary, from full scale excavations, to watching briefs for building surveys. The wider Collection comprises objects, paper records, plans, drawings, photographs, reports and increasingly, digital data. Nearly 2,000 of such “site archives” have been deposited.
- Archives – This comprises a Catalogue listing – including descriptions – of over 10,000 accessioned items. The items range from individual documents to huge collections of material (e.g. 1.25 million

## NOTES TO THE CORE FINANCIAL STATEMENTS

cards in the Central Index of Merchant Seaman). It is estimated that the Archives take up approximately 2 linear miles of shelving; and

- Local and Maritime Collections – Accession Registers dating back to 1912, the date of the founding of Tudor House as Southampton's first municipal museum, running through to the present day, are the main record for this area of collections. It is estimated there are between two and three hundred thousand items in the collections. About 10% of these items are on databases or spreadsheets, the rest are still on paper records.

The Council does not consider that reliable cost or valuation information can be obtained for the items noted above. This is because of the diverse nature of the assets held and lack of comparable market values.

### m) Interests in Companies and Other Entities

The Council does not have any material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures. Therefore there is no requirement to produce group accounts.

Non-material interests in companies and other entities are recorded as financial assets at cost less any impairment.

### n) Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MiRS and posted to the CAA and (for any sale proceeds greater than £10,000) the Useable Capital Receipts Reserve.

### o) Joint Operations

Joint operations are arrangements where the parties that have control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liability incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.



## NOTES TO THE CORE FINANCIAL STATEMENTS

### p) Leases

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

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

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

#### *The Council as Lessee*

The Council does not have any material finance or operating leases, where it is the lessee.

#### *The Council as Lessor*

- Finance Leases – the Council does not have any material finance leases where it is the lessor, although has entered into a number of Private Finance Initiative (PFI) arrangements (see below); and
- Operating Leases – where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### q) Overheads and Support Services

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

### r) Property, Plant and Equipment

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

#### *Recognition*

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

#### *Measurement*

Assets are initially measured at cost, comprising:

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the CAA in the MiRS.

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

- Infrastructure and Community Assets – Depreciated historical cost.
- Dwellings – Current value, determined using the basis of existing use value for social housing (EUV-SH).
- Assets Under Construction – Historic cost
- All Other Assets – Current value, determined as the amount that would be paid for the asset in its existing use, (existing use value – EUV).

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

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

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

When decreases in value are identified, they are accounted for as follows:

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

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

### *Impairment*

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

Where impairment losses are identified, they are accounted for as follows:

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

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

### *Depreciation*

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of

## NOTES TO THE CORE FINANCIAL STATEMENTS

their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life, (i.e. freehold land and certain Community Assets), and assets that are not yet available for use, (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and Other Buildings – Straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, Plant, Furniture and Equipment – A percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- Infrastructure – Straight-line allocation up to 40 years.

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

Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the CAA.

### *Disposals and Non-Current Assets Held for Sale*

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government. The balance of receipts remains within the Capital receipts Reserve and can then only be used for new capital investment (or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Useable Capital Receipts from the General Fund Balance in the MiRS.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MiRS.

### **s) Private Finance Initiatives (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional

## NOTES TO THE CORE FINANCIAL STATEMENTS

charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair Value of the Services Received during the Year – Debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance Cost – A percentage interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent Rent – Increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment Towards Liability – Applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle Replacement Costs – Proportion of the amounts payable are posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

### t) Provisions, Contingent Liabilities and Contingent Assets

#### *Provisions*

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

#### *Contingent Liabilities*

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a Note to the Financial Statements.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### *Contingent Assets*

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

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

### **u) Reserves**

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirements and employee benefits, and the deficit on the Dedicated Schools Grant and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

### **v) Revenue Expenditure Funded from Capital under Statute (REFCUS)**

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

### **w) Schools**

The Code of Practice on Local Authority Accounting in the United Kingdom specifies that all schools maintained by the Council are deemed to be under the Council's control. The transactions and balances attributable to the governing bodies of the maintained schools have been consolidated into the Council's financial statements, applying accounting policies for recognition and measurement consistent with those applied by the Council to its own income, expenditure, cash flows, assets and liabilities. Transactions and balances between the Council and schools have been eliminated.

### **x) Value Added Tax (VAT)**

All Income and expenditure, whether revenue or capital in nature, excludes any amounts related to VAT, as all VAT collected is payable to HMRC and the Council – using its 'Section 33 status' within the VAT Act 1994 – is able to recover all VAT paid.

### **y) Fair Value Measurement**

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

- i) in the principal market for the asset or liability; or

## NOTES TO THE CORE FINANCIAL STATEMENTS

ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

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

### z) Rounding Convention

Unless otherwise stated the convention used in these Financial Statements is to round amounts to the nearest thousand pounds. All totals are the rounded additions of unrounded figures, and therefore may – from time-to-time – not be the strict sums of the figures presented in the text or tables.

## 2. Accounting Standards That Have Been Issued But Not Yet Adopted

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2021/22 Code. New standards that are expected to be introduced in the 2021/22 Code that apply from 1 April 2021 are:

- Definition of a Business: Amendments to IFRS 3 *Business Combinations*
- Interest Rate Benchmark Reform – Phase 1: Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*

None of these amendments are anticipated to have a material impact on the Council's financial performance and financial position.

## 3. Critical Judgements in Applying Accounting Policies

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

The critical judgements that have the most significant effect on the amounts in the Financial Statements are:

- **Local Government Funding** – There is a high degree of uncertainty about future levels of funding for local government, with the deferral for a second year running of the Government's medium term Spending Review, postponement of the implementation of the Fair Funding Review, delays to the Adult Social Care funding green paper and uncertainties over the impact of the COVID-19 pandemic and gradual lifting of restrictions on major income streams. However, the Council has determined that

## NOTES TO THE CORE FINANCIAL STATEMENTS

this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- **Asset Classifications** – The Council has made judgements on whether assets are classified as Investment Property, or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Council it is deemed to be a Property, Plant and Equipment asset. If there is no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used.
- **Accounting for Schools; Balance Sheet Recognition** – The Council recognises schools in line with the provisions of the Code, and they are recognised on the Balance Sheet only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council owns the property, has the ability to employ the staff of the school, and is able to set the admission criteria.

There are currently six types of schools:

- Community schools,
- Voluntary Aided (VA) schools,
- Voluntary Controlled (VC) schools,
- Foundation / Trust schools,
- Academies, and
- Free Schools

Community schools are owned by the Council, staff are appointed by the Council, who also sets the admission criteria. Therefore, these schools are recognised on the Council's Balance Sheet.

VA schools are maintained schools and often have a religious character with the school being owned by the religious body. These schools are paid capital funding on a similar basis to other categories of school, but the governing body usually pays at least 10% of the costs of capital work. Responsibility for work to VA school premises is shared between the school's governing body and the Council. In simple terms the Council has responsibility for the playing fields and the governing body is liable for all other capital expenditure. Staff in VA schools are appointed by the schools' governing body. The value of these schools is not included in the Council's Balance Sheet. VC schools are owned by the religious body, staff are appointed by the governors, but are employed by the Council, who also sets the admission criteria. However, like VA Schools, the value of these schools is not included within the Council's Balance Sheet.

Staff in Foundation/Trust, Academy and Free schools are appointed by the schools' governing body, which also set the admission criteria. The Council does not receive the economic benefit or service potential of these schools and does not therefore recognise them on the Council's Balance Sheet.

The table below illustrates the number and type of schools:

Status as at 31 March 2021	Infant	Junior	Primary	Secondary	Other	Total
Academies	6	5	11	5	2	29
Catholic Voluntary Aided Schools			2	1		3
Church of England Voluntary Aided Schools			1			1
Church of England Voluntary Controlled Schools			3			3
Community Schools	3	2	13	3	4	25
Foundation Trust	1	1	7	3	1	13
Free Schools			1			1
<b>Grand Total</b>	<b>10</b>	<b>8</b>	<b>38</b>	<b>12</b>	<b>7</b>	<b>75</b>

- **Accounting for Schools - Transfers to Academy Status** – When a school that is held on the Council's Balance Sheet transfers to Academy status the Council accounts for this as a disposal for nil

## NOTES TO THE CORE FINANCIAL STATEMENTS

consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property, Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the asset is transferred to Other Land and Buildings, (within Property Plant & Equipment), on the date of transfer to an Academy the Council accounts for this as a disposal for nil consideration.

- **Heritage Assets** – The Council does not recognise heritage assets on the Balance Sheet where information on cost or valuation is not available and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements. This applies to archives, archaeology collections and local and maritime collections.
- **Lease Classifications** – The Council has made judgements on whether lease arrangements are finance or operating leases, e.g. the treatment of all property ground rents as operating leases. These judgements are based on an overall assessment of a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee.
- **PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement – see Note 32 PFI and Similar Contracts for further details.
- **Financial Assets** – The Council has assessed that its investment in the CCLA Local Authorities Property Fund should be measured at Fair Value through Profit and Loss.
- **Contractual Arrangements** – The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- **Interests in Other Entities** – The Council has assessed that an interest in another entity falls within the group boundary of the Council on the grounds of control and significant influence in line with the Code. However, the Council's interest is not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. In order to ensure compliance with the Code, a range of disclosures have been made in other sections of the accounts.
- **Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision is required or a contingent liability noted. The judgements are based on the degree of certainty around the results of pending legal actions.
- **COVID-19 Funding** – the Council has received additional grant funding as part of the government's response to the COVID-19 pandemic, some to cover the Council's own expenditure/income shortfalls and some for passing on to local businesses and individuals. The Council has made judgements about whether it is acting as principal or agent in relation to this funding. Where the Council is acting as principal the grant receipts have been recognised as income and associated payments as expenditure. Where the Council is acting as agent the grant receipts and corresponding payments are not included in the Comprehensive Income and Expenditure Statement (CIES), other than any element of the funding relating to administration costs. Further details of the COVID-19 grants received, including those where the Council is acting as agent and they are not recognised in the CIES, are provided in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance.

### 4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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



## NOTES TO THE CORE FINANCIAL STATEMENTS

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Property, Plant and Equipment</b>	The Council carries out a rolling programme of valuations for PPE required to be measured at current value and £1,120.6M of assets were valued at current value in 2020/21.	A 1% change to the PPE valuations made for the year would change the reported value of PPE by £11.2M.
<b>Investment Property</b>	<p>The Council values its Investment Property annually and the fair value at 31 March 2021 was £113.1M.</p> <p>It remains unclear what impact the COVID-19 pandemic will have on property values and there is a risk of material changes during the next year.</p> <p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p>	<p>A 1% change to the IP valuations would change the report value of IP by £1.1M.</p> <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.3M if the useful lives were reduced by one year.</p>
<b>Arrears</b>	At 31 March 2021, the Council had a gross balance of trade debtors of £23.0M. The current level of impairment allowance (Bad Debt Provision) based on previous experience, current and forecast economic conditions, is £7.5M, which represents 33% of the balance.	If collection rates were to deteriorate, increasing our impairment rate (bad debt) to 50% of the balance, it would require an additional £4.0M to set aside as an allowance.
<b>NDR Appeals Provision</b>	<p>Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in earlier years. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2021, the Council's share of which is £8.7M.</p> <p>The estimate is based on an assessment by an external advisor of the likely success of the appeals/challenge outstanding on the Valuation Office Agency (VOA) list and projected appeals. The estimate does not include an amount for challenges for COVID-19 related material changes in circumstances, following ministerial announcement in March 2021 that government will legislate to rule these out.</p>	An increase or reduction of the appeals provision estimate of 10%, would increase/(reduce) the year end NDR appeals provision by £0.9M.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Pensions Liability</b>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2021 and the projected service cost for the year ending 31 March 2021 is set out below.</p> <p>In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within Defined Benefit Pension Schemes Note 34 e).</p>
<b>Funded LGPS Benefits Discount rate assumption</b>		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,581.431	1,649.275
% change of present value of total obligation	-2.1%	2.1%
Projected service cost (£M's)	60.631	64.962
Approximate % change in projected service cost	-3.4%	3.5%
<b>Rate of general increase in salaries</b>		
Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,618.584	1,612.122
% change of present value of total obligation	0.2%	-0.2%
Projected service cost (£M's)	62.765	62.765
Approximate % change in projected service cost	0.0%	0.0%
<b>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption</b>		
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,646.045	1,584.661
% change of present value of total obligation	1.9%	-1.9%
Projected service cost (£M's)	64.962	60.631
Approximate % change in projected service cost	3.5%	-3.4%
<b>Post retirement mortality assumption</b>		
Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	1,673.506	1,558.816
% change of present value of total obligation	3.6%	-3.5%
Projected service cost (£M's)	65.276	60.254
Approximate % change in projected service cost	4.0%	-4.0%
* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them		

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 5. Prior Period Adjustments

The service analysis in the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement and Note 8 Expenditure and Funding Analysis is based on the Cabinet portfolios in place from June 2020. Prior year comparatives have been updated to reflect the new structure. The restatement also reflects that the Coroners Service has been moved to Stronger Communities from Other Operating Expenditure and a correction between Investment Properties income and Service income (£1.520M). In the EFA the £0.903M deficit on Net Expenditure Chargeable to the General Fund and HRA Balances, £30.947M deficit for Adjustments between the Funding and Accounting Basis and £31.850M deficit for Net Expenditure in the CIES have not changed as a result of the 2019/20 restatement. In the CIES the £712.322M Expenditure, £680.472M (-) Income and £31.850M Deficit on the Provision of Services have not changed as a result of the 2019/20 restatement.

Trade debtors as at 31 March 2020 in Note 17 Financial Instruments should have been shown gross of the impairment allowance, not net. The balance has been restated from £17.855M to £24.685M.

No other prior period adjustments have been made.

### 6. Other Items of Expenditure and Income

#### Income and Expenditure relating to COVID-19

The accounting arrangements for business rates income mean that the General Fund Balance at 31 March 2021 excludes the loss for rate reliefs introduced by the government in 2020/21 to support particular business sectors during the pandemic. This loss will be charged to the General Fund in 2021/22 as part of the deficit on the Collection Fund being recouped in future years. However, the Council received £25.6M of government grant in 2020/21 to compensate for this loss. This material grant income has been shown separately within Taxation and Non-Specific Grant Income on the face of the CIES. The additional S31 business rates reliefs grant over and above what was budgeted for in 2020/21 has been transferred to the Revenue Grants Reserve - General to be used in 2021/22 to offset the business rates deficit that will be charged to the General Fund (see Note 9 Earmarked Reserves).

Details of general and specific revenue grant funding for COVID-19 is provided in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance. In the CIES specific grant income is included within the Cost of Services and general grant income is included within Taxation and Non-Specific Grant Income. Where the Council has acted as an agent of the government in administering grants to businesses, social care providers and individuals these are excluded from the CIES.

The Cost of Services includes expenditure incurred relating to the pandemic. Some of these costs are for activities that are outside of the norm for the Council, such as COVID-19 outbreak control and management (£2.97M). Additional costs due to the pandemic on normal service activity which form part of the Cost of Services include care costs for clients discharged from hospital (£3.4M, of which £2.2M was funded by the CCG), payments to adult social care providers to help meet COVID-19 related costs (£2.1M), additional children's and adults social care staffing costs (£2.2M) and council tax hardship discounts for eligible working age tax payers (£2.76M). Some of these costs have been met from specific government grants.

#### Revaluation and Impairment of Property Plant and Equipment

The Council, as in prior years, discloses downward and upward revaluations (through CIES) and impairments of General Fund and HRA properties separately. These items are disclosed separately within the CIES to avoid distortion of comparisons between years.

#### Housing Improvement Loans

An adjustment was made in 2019/20 to reduce Revenue Expenditure Funded by Capital under Statute (REFCUS) and recognise outstanding home improvement loans as long term debtors. This was a correction to previous accounting treatment that was not treated as a prior period adjustment because the amount involved was not material to the accounts.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 7. Events after the Reporting Period

The financial statements were authorised for issue by the Section 151 Officer on the 4 October 2021. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

One community school has converted to academy status since 31 March 2021. The estimated value of the school that will be removed from the Balance Sheet during 2021/22 is £3.1M.

### 8. Expenditure and Funding Analysis

#### a) Notes to the Expenditure and Funding Analysis

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

#### Adjustments for Capital Purposes

The Cost of Services has been adjusted to add in depreciation, impairment and revaluation gains/losses and capital expenditure on third party assets which is not recognised on the Council's balance sheet. Capital expenditure funded from revenue and PFI principal repayments have been removed. Adjustments for capital purposes have also been made to:

- **Other operating expenditure** – adjusts for capital disposals with transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charge for capital financing i.e. Minimum Revenue Provision is deducted from other income and expenditure as it is not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – add in capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

#### Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and investment income and expenditure** - the net interest on the defined benefit liability is charged to the CIES.

#### Other Differences

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

- **For services** – add in expenditure for staff holiday entitlement, add in income and expenditure not included in the outturn report, remove transfers to/from earmarked reserves and transfer costs between services and from Other Income and Expenditure.
- **For Financing and investment income and expenditure** – transfer PFI finance costs and movement of impairment allowances/debt write-offs from service lines.
- **For Taxation and non-specific grant income and expenditure** – represents the difference between the amount received under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Adjustments between Funding and Accounting Basis 2020/21

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change for the Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Children & Learning	7,628	4,052	(204)	11,476
Culture & Homes	3,793	761	(1,830)	2,724
Customer & Organisation	1,099	3,562	(1,610)	3,051
Finance & Income Generation	916	1,717	2,828	5,461
Green City & Place	9,189	3,579	(5,526)	7,242
Health & Adults	157	3,152	(8,059)	(4,750)
Housing Revenue Account (HRA)	0	3,912	(518)	3,394
Stronger Communities	23	995	(306)	712
Housing Benefit	0	0	205	205
Other Income & Expenditure	0	0	(2,113)	(2,113)
<b>Other items of expenditure and income:</b>				
Correction for Housing Improvement Loans	0	0	0	0
Revaluation & Impairment of General Fund Assets	3,493	0	0	3,493
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	(42,021)	0	0	(42,021)
<b>Cost of Services</b>	<b>(15,723)</b>	<b>21,730</b>	<b>(17,133)</b>	<b>(11,126)</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	<b>(20,608)</b>	<b>11,063</b>	<b>52,106</b>	<b>42,561</b>
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	<b>(36,331)</b>	<b>32,793</b>	<b>34,973</b>	<b>31,435</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Adjustments between Funding and Accounting Basis 2019/20 Restated

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change for the Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Children & Learning	11,414	4,817	5,196	21,427
Culture & Homes	3,857	676	(1,374)	3,159
Customer & Organisation	1,153	3,637	1,753	6,543
Finance & Income Generation	519	(4,628)	5,948	1,839
Green City & Place	7,793	3,474	(6,159)	5,108
Health & Adults	165	3,453	(295)	3,323
Housing Revenue Account (HRA)	0	488	(518)	(30)
Stronger Communities	221	972	73	1,266
Housing Benefit	0	0	(580)	(580)
Other Income & Expenditure	0	0	1,482	1,482
<b>Other items of expenditure and income:</b>				
Correction for Housing Improvement Loans	(3,721)	0	0	(3,721)
Revaluation & Impairment of General Fund Assets	13,979	0	0	13,979
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	18,383	0	0	18,383
<b>Cost of Services</b>	<b>53,763</b>	<b>12,889</b>	<b>5,526</b>	<b>72,178</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	<b>(51,297)</b>	<b>10,647</b>	<b>(581)</b>	<b>(41,231)</b>
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	<b>2,466</b>	<b>23,536</b>	<b>4,945</b>	<b>30,947</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Analysis of income and expenditure by nature

2019/20 £000	Analysis of income and expenditure by nature	2020/21 £000
	<b>Income</b>	
(125,364)	Revenue from contracts with service recipients	(113,782)
(344,627)	Government grants and contributions	(418,134)
(9,917)	Other service income	(9,812)
(7,903)	Income in relation to investment properties	(6,170)
(785)	Interest and investment income	(1,854)
(179,744)	Income from council tax and non-domestic rates	(130,451)
(12,132)	Proceeds from the disposal of non-current assets	(4,478)
<b>(680,472)</b>		<b>(684,681)</b>
	<b>Expenditure</b>	
254,556	Employee benefits expenses	274,530
322,935	Other service expenses	335,330
92,655	Depreciation, amortisation, impairments and revaluations	17,015
18,159	Interest payable and similar charges	16,657
10,648	Net interest expense on the pension defined liability	11,063
4,152	Payments to Housing Capital Receipts Pool	1,160
9,217	Costs from the disposal of non-current assets	13,575
<b>712,322</b>	<b>Total Expenditure</b>	<b>669,330</b>
<b>31,850</b>	<b>(Surplus) or Deficit on the Provision of Services</b>	<b>(15,351)</b>

### c) Analysis of service income

Analysis of Service Income 2020/21	Government Grants and Contributions £000	Revenue from Contracts with Service £000	Other Service Income £000	Total Service Income £000
Children & Learning	(170,151)	(1,350)	(101)	(171,602)
Culture & Homes	(3,399)	(720)	(327)	(4,446)
Customer & Organisation	(1,647)	(1,953)	(2)	(3,602)
Finance & Income Generation	(8,492)	(2,286)	(796)	(11,574)
Green City & Place	(2,945)	(11,570)	(4,525)	(19,040)
Health & Adults	(48,553)	(11,858)	0	(60,411)
Housing Revenue Account (HRA)	0	(79,549)	(871)	(80,420)
Stronger Communities	(2,693)	(4,491)	(570)	(7,754)
Housing Benefit	(71,050)	0	0	(71,050)
Other Income & Expenditure	0	(5)	(2,620)	(2,625)
	<b>(308,930)</b>	<b>(113,782)</b>	<b>(9,812)</b>	<b>(432,524)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

Analysis of Service Income 2019/20 Restated	Government Grants and Contributions	Revenue from Contracts with Service Recipients	Other Service Income	Total Service Income
	£000	£000	£000	£000
Children & Learning	(152,541)	(4,808)	(226)	(157,575)
Culture & Homes	(3,372)	(2,029)	(294)	(5,695)
Customer & Organisation	(743)	(2,855)	(1)	(3,599)
Finance & Income Generation	(3,470)	(2,911)	(1,143)	(7,524)
Green City & Place	(2,455)	(17,264)	(6,898)	(26,617)
Health & Adults	(38,442)	(12,238)	0	(50,680)
Housing Revenue Account (HRA)	0	(78,139)	(883)	(79,022)
Stronger Communities	(2,639)	(4,872)	(472)	(7,983)
Housing Benefit	(72,663)	0	0	(72,663)
Other Income & Expenditure	0	(248)	0	(248)
	<b>(276,325)</b>	<b>(125,364)</b>	<b>(9,917)</b>	<b>(411,606)</b>

### 9. Transfers (to) / from Earmarked Reserves

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

	<u>Balance</u> <u>31 March</u> <u>2020</u>	<u>Net</u> <u>Transfers</u> <u>In</u> <u>2020/21</u>	<u>Net</u> <u>Transfers</u> <u>Out</u> <u>2020/21</u>	<u>Balance</u> <u>31 March</u> <u>2021</u>
	£000	£000	£000	£000
<b><u>Earmarked Reserves</u></b>				
<b><u>General Fund</u></b>				
Medium Term Financial Risk Reserve	(50,318)	(9,470)		(59,788)
Organisational Design Reserve	(6,640)		6,640	0
Revenue Grant Reserve - General	(9,521)	(25,522)		(35,043)
Social Care Demand Risk Reserve	0	(11,612)		(11,612)
Portfolio Carry Forwards Reserve	(2,603)	(3,460)		(6,063)
PFI Sinking Fund	(4,523)	(2)		(4,525)
Insurance Reserve	(2,808)		150	(2,658)
On Street Parking	(3,095)		273	(2,822)
Digital Strategy Reserve	(6,156)		3,923	(2,233)
Dedicated Schools Grant Reserve	7,420	(7,420)		0
General Fund Contributions to Capital	(4,256)		2,635	(1,621)
Other Reserves	(3,698)	(315)		(4,013)
	<b>(86,198)</b>	<b>(57,801)</b>	<b>13,621</b>	<b>(130,378)</b>
<b><u>Schools</u></b>				
School Balances	(1,565)	(2,606)		(4,171)
	<b>(87,763)</b>	<b>(60,407)</b>	<b>13,621</b>	<b>(134,549)</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

The purpose of the main reserves are noted below:

### **Medium Term Financial Risk Reserve**

As part of the Council's Medium Term Financial Forecast (MTFF) monies have been set aside on a non-recurrent basis to mitigate the risks of changes to the funding system and volatility of funding streams, demand pressures and the potential for planned savings to be delayed. A number of separate reserves have been consolidated into this reserve during 2020/21.

### **Organisational Design Reserve**

The reserve held monies to meet the financial cost of changes in staffing structures, e.g. redundancies, as a result of organisation design changes for the period of the MTFF. This reserve has been consolidated into the Medium Term Financial Risk Reserve.

### **Revenue Grants Reserve – General**

This reserve holds grant funding that has been ring-fenced to be used in future years. £32.1M of the balance at 31 March 2021 is for COVID-19 grants received in 2020/21 to be used in 2021/22. Of this, £24.7M is for additional S31 business rates reliefs grant over and above the budgeted grant income for 2020/21 and £1.1M is for compensation grant for council tax losses. The accounting arrangements for business rates and council tax mean that the deficits on the Collection Fund in 2020/21 are charged to the General Fund in future years. Due to this timing difference the compensation funding for additional business rates reliefs and council tax shortfalls has been set aside in the reserve to be used to offset the deficits charged to the General Fund in 2021/22 and it does not represent additional resources available to the Council to spend on service provision.

### **Social Care Demand Risk Reserve**

The reserve holds monies to mitigate the risks of demand pressures within both Children's and Adults Social Care, such as rising client numbers.

### **Portfolio Carry Forward Reserve**

This reserve holds budgets carried forward for specific purposes as agreed by Council.

### **PFI Sinking Fund**

The surplus PFI grant is held in a reserve to meet future contract liabilities and additional costs that might arise from reviewing or restructuring the councils PFI arrangements.

### **Insurance Reserve**

This reserve holds monies to meet the potential cost of liability claims against the Council, including motor and third party injury, however, there is no commitment on the Council to pay the claim.

### **On Street Parking Reserve**

It is a legal requirement to set aside surplus income from on street parking to be used in future years in accordance with the Road Traffic Regulation Act 1984.

### **Digital Strategy Reserve**

Monies have been set aside to be used in the delivery of the Council's digital strategy.

### **Dedicated Schools Grant Reserve**

This reserve held the deficit on the Schools Budget to be funded from future Dedicated Schools Grant (DSG) income. In accordance with the Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2020 the deficit as at 31 March 2021 has been transferred to a new unusable reserve the Dedicated Schools Grant Adjustment Account. See Note 22 (f) for further details.

### **General Fund Contributions to Capital**

This reserve holds monies to finance the capital programme.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 10. Adjustments between Accounting Basis and Funding Basis Under Regulations

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

2020/21	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>										
Amortisation of Intangible Fixed Assets	(1,774)							(1,774)	1,774	0
Depreciation and revaluation of Non Current Assets	(29,399)		20,468					(8,931)	8,931	0
Movement on Market Value of Investment Properties	(6,366)		57					(6,309)	6,309	0
Capital Grants and Contributions Applied	32,404		514					32,918	(32,918)	0
Capital Grants and Contributions Unapplied	(1,881)						1,881	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(6,081)							(6,081)	6,081	0
Short-term Accumulating Compensated Absences Account	(1,956)							(1,956)	1,956	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(113)							(113)	113	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(45,514)		(9,991)					(55,505)	55,505	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	18,624		4,088					22,712	(22,712)	0
Statutory Provision for the Financing of Capital Investment	9,907							9,907	(9,907)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,160)				1,160			0	0	0
Capital expenditure charged in-year to the GF and HRA Balances	660		7,187					7,847	(7,847)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated	(24,631)							(24,631)	24,631	0
Transfers to/(from Major Repairs Reserves			21,553			(21,553)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						19,056		19,056	(19,056)	0
Capital Receipts in Year	119		4,359		(4,478)			0	0	0
Non-current Asset Disposals	(10,914)		(2,661)					(13,575)	13,575	0
Capital Receipts Financing of New Capital Expenditure					16,829			16,829	(16,829)	0
Adjustment for repayment of loans					(78)			(78)	78	0
Transfer of deficit on the Dedicated Schools Grant to the Dedicated Schools Grant Adjustment Account	(8,934)							(8,934)	8,934	0
	(77,009)	0	45,574	0	13,433	(2,497)	1,881	(18,618)	18,618	0

## NOTES TO THE CORE FINANCIAL STATEMENTS

2019/20	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>										
Amortisation of Intangible Fixed Assets	(1,458)							(1,458)	1,458	0
Depreciation and revaluation of Non Current Assets	(38,030)		(37,980)					(76,010)	76,010	0
Movement on Market Value of Investment Properties	(15,643)		456					(15,187)	15,187	0
Capital Grants and Contributions Applied	35,650		542					36,192	(36,192)	0
Capital Grants and Contributions Unapplied	21,403						(21,403)	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(4,023)							(4,023)	4,023	0
Short-term Accumulating Compensated Absences Account	(219)							(219)	219	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(906)							(906)	906	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(53,610)		(2,106)					(55,716)	55,716	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	30,964		1,216					32,180	(32,180)	0
Statutory Provision for the Financing of Capital Investment	9,303							9,303	(9,303)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(4,152)				4,152			0	0	0
Capital expenditure charged in-year to the GF and HRA Balances	2,879		8,955					11,834	(11,834)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated	(6,675)							(6,675)	6,675	0
Transfers to/(from) Major Repairs Reserve			19,597			(19,597)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						19,597		19,597	(19,597)	0
Capital Receipts in Year	1,909		10,223		(12,132)			0	0	0
Non-current Asset Disposals	(2,852)		(6,365)					(9,217)	9,217	0
Capital Receipts Financing of New Capital Expenditure					8,205			8,205	(8,205)	0
Capitalised shares written off	(25)							(25)	25	0
	(25,485)	0	(5,462)	0	225	0	(21,403)	(52,125)	52,125	0

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 11. Interest Payable and Receivable

<b>Interest Payable and Similar Charges</b>		
<b><u>2019/20</u></b>		<b><u>2020/21</u></b>
<b>£000</b>		<b>£000</b>
7,498	Interest on External Loans	7,204
7,095	PFI Schemes	6,895
372	Payments to HCC in respect of Transferred Debt	291
225	Other	243
<u>2,969</u>	Movement of impairment allowance & debt write-offs	<u>2,024</u>
<b><u>18,159</u></b>		<b><u>16,657</u></b>

<b>Interest and Investment Income</b>		
<b><u>2019/20</u></b>		<b><u>2020/21</u></b>
<b>£000</b>		<b>£000</b>
(1,745)	Investments	(2,042)
(22)	HRA Cash Balances	0
<u>982</u>	(Gain) /Loss on Financial Instruments	<u>188</u>
<b><u>(785)</u></b>		<b><u>(1,854)</u></b>

### 12. Property, Plant and Equipment (PPE)

PPE are shown at a current valuation of £1,528M (2019/20 £1,462M), an increase of £66M (2019/20 £39M increase). The basis of valuation is explained in more detail in Note 1r) (Accounting Policies). The values are shown as at 31 March 2021.

#### a) Depreciation

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

- Council Dwellings – based on replacement costs and useful lives of the main components. Useful lives range from 15 – 60 years.
- Other Land and Buildings – 30 to 70 years.
- Vehicles, Plant, Furniture & Equipment – 5 to 15 years.
- Infrastructure – 25 to 40 years.

#### b) Revaluations

The Council carries out a rolling programme that ensures that all PPE required to be measured at current value is revalued at least every five years and are reviewed yearly to ensure there are no material movements since the last valuation. All valuations were carried out by the Council's Valuations and Estates Team. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

## NOTES TO THE CORE FINANCIAL STATEMENTS

The movement in PPE for both the current and previous year are shown below and comes about due to changes to asset valuations, disposals, new acquisitions and enhancements.

### c) Disposals

For 2020/21 there was an overall loss of £9.1M loss (2019/20 - 2.9M gain) on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, mainly as a result of the transfer of land for three schools that had taken Foundation Trust status in a prior year, offset by a £1.6M gain (2019/20 - £3.9M gain) relating to the Housing Revenue Account.

### d) Current Value

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Movement in Property, Plant & Equipment (PPE) 2020/21

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1 April 2020	655,993	542,571	50,945	278,376	3,897	1,442	40,921	1,574,145	83,401
Adjustment to Previous Year Charges	0	0	0	0	0	0	0	0	(1,906)
	655,993	542,571	50,945	278,376	3,897	1,442	40,921	1,574,145	81,495
Additions	18,528	2,637	8,013	21,679	0	0	22,528	73,385	2
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	(7,413)	0	0	0	0	0	(7,413)	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	20,932	(7,824)	0	0	0	0	0	13,108	(2,058)
Derecognition-Disposals	(2,661)	(11,205)	(14)	0	0	0	0	(13,880)	
Reclassified outside PPE	0	0	0	0	0	0	0	0	
Other Reclassifications	10,173	0	0	0	0	0	(10,173)	0	
<b>At 31 March 2021</b>	<b>702,965</b>	<b>518,766</b>	<b>58,944</b>	<b>300,055</b>	<b>3,897</b>	<b>1,442</b>	<b>53,276</b>	<b>1,639,345</b>	<b>79,439</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2020	(21,089)	(22,930)	(17,367)	(50,511)	(314)	(5)	0	(112,216)	(9,282)
Adjustment to Previous Year Charges	0	(1)		(2)				(3)	1,940
	(21,089)	(22,931)	(17,367)	(50,513)	(314)	(5)	0	(112,219)	(7,342)
Depreciation in Year	(21,311)	(16,297)	(3,922)	(5,895)	(17)	(13)	0	(47,455)	(3,560)
Impairment in Year	0	0	0	0	0	0	0	0	
Written out to the Revaluation Reserve	0	22,520	0	0	0	0	0	22,520	
Written out to the (Surplus)/ Deficit on the Provision of Services	21,089	4,330	0	0	0	0	0	25,419	1,846
Derecognition-Disposals	0	292	14	0	0	0	0	306	
Other Reclassifications	0	0	0	0	0	0	0	0	
<b>At 31 March 2021</b>	<b>(21,311)</b>	<b>(12,086)</b>	<b>(21,275)</b>	<b>(56,408)</b>	<b>(331)</b>	<b>(18)</b>	<b>0</b>	<b>(111,429)</b>	<b>(9,056)</b>
<b>Net Book Value</b>									
At 31 March 2021	681,654	506,680	37,669	243,647	3,566	1,424	53,276	1,527,916	70,383
At 31 March 2020	634,904	519,641	33,578	227,865	3,583	1,437	40,921	1,461,929	74,119

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Carried at Historic Cost</b>			37,669	243,647	3,566		53,276	338,158
<b>Valued at Fair Value in:</b>								
2020/21	681,654	355,240				71		1,036,965
2019/20		96,380				1,122		97,502
2018/19		39,555				231		39,786
2017/18		12,598						12,598
2016/17		2,310						2,310
Deminimus		597						597
<b>Net Book Value as at 31 March 2021</b>	<b>681,654</b>	<b>506,680</b>	<b>37,669</b>	<b>243,647</b>	<b>3,566</b>	<b>1,424</b>	<b>53,276</b>	<b>1,527,916</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Movement in Property, Plant &amp; Equipment (PPE) 2019/20</b>									
	<b>Council Dwellings</b>	<b>Other Land &amp; Buildings</b>	<b>Vehicles, Plant and Equipment</b>	<b>Infrastructure</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>PP&amp;E Under Construction</b>	<b>Total</b>	<b>PFI Assets Included in PP&amp;E</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>									
At 1 April 2019	673,002	525,995	47,033	251,563	3,897	3,234	29,026	<b>1,533,750</b>	76,896
Adjustment to Previous Year Charges	0	0	0	0	0	0	0	<b>0</b>	7,638
	673,002	525,995	47,033	251,563	3,897	3,234	29,026	<b>1,533,750</b>	84,534
Additions	25,389	9,942	3,912	26,813	0	0	21,496	<b>87,552</b>	15
Donations	0	0	0	0	0	0	0	<b>0</b>	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	16,099	0	0	0	112	0	<b>16,211</b>	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(36,034)	(19,540)	0	0	0	(74)	0	<b>(55,648)</b>	(1,148)
Derecognition-Disposals	(6,364)	(1,606)	0	0	0	0	0	<b>(7,970)</b>	
Derecognitions- Fully Depreciated	0	0	0	0	0	0	0	<b>0</b>	
Reclassified outside PPE	0	0	0	0	0	0	0	<b>0</b>	
Other Reclassifications	0	11,681	0	0	0	(1,830)	(9,601)	<b>250</b>	
<b>At 31 March 2020</b>	<b>655,993</b>	<b>542,571</b>	<b>50,945</b>	<b>278,376</b>	<b>3,897</b>	<b>1,442</b>	<b>40,921</b>	<b>1,574,145</b>	<b>83,401</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2019	(19,539)	(31,690)	(14,027)	(45,304)	(296)	0	0	<b>(110,856)</b>	(11,238)
Adjustment to Previous Year Charges	1	(1)	0	0	0	0	0	<b>0</b>	122
	(19,538)	(31,691)	(14,027)	(45,304)	(296)	0	0	<b>(110,856)</b>	(11,116)
Depreciation in Year	(19,356)	(15,724)	(3,340)	(5,207)	(18)	(2)	0	<b>(43,647)</b>	(3,653)
Impairment in Year	(1,734)	0	0	0	0	0	0	<b>(1,734)</b>	
Written out to the Revaluation Reserve	0	18,848	0	0	0	36	0	<b>18,884</b>	
Written out to the (Surplus)/ Deficit on the Provision of Services	19,539	5,479	0	0	0	0	0	<b>25,018</b>	5,487
Derecognition-Disposals	0	119	0	0	0	0	0	<b>119</b>	
Derecognitions-Other								<b>0</b>	
Other Reclassifications		39				(39)	0	<b>0</b>	
<b>At 31 March 2020</b>	<b>(21,089)</b>	<b>(22,930)</b>	<b>(17,367)</b>	<b>(50,511)</b>	<b>(314)</b>	<b>(5)</b>	<b>0</b>	<b>(112,216)</b>	<b>(9,282)</b>
<b>Net Book Value</b>									
<b>At 31 March 2020</b>	<b>634,904</b>	<b>519,641</b>	<b>33,578</b>	<b>227,865</b>	<b>3,583</b>	<b>1,437</b>	<b>40,921</b>	<b>1,461,929</b>	<b>74,119</b>
<b>At 31 March 2019</b>	<b>653,463</b>	<b>494,305</b>	<b>33,006</b>	<b>206,259</b>	<b>3,601</b>	<b>3,234</b>	<b>29,026</b>	<b>1,422,894</b>	<b>65,658</b>

### Capital Commitments

At 31 March 2021, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2021/22 and future years budgeted to cost £64.4M. Similar commitments at 31 March 2020 were £59.5M. The major commitments are:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>2019/20</u>	<u>2020/21</u>
	<u>£000</u>	<u>£000</u>
HRA - Estate Regeneration & New Build	32,701	198
HRA - Supporting Communities	275	3,705
HRA - Improving Quality of Homes	1,506	503
HRA - Supporting Independent Living	1,599	2,874
HRA - Making Homes Safe	14,473	20,717
HRA - Making Homes Energy Efficient	1,904	2,523
Sholing Technical College Renovation	1,584	760
Regent Park Expansion	1,511	0
Southampton All Through School	1,378	29,551
Desktop Refresh	599	730
Warm Homes	465	116
Electric Vehicles	432	1,566
Other Various Minor Commitments	1,093	1,154
<b>Total</b>	<b><u>59,520</u></b>	<b><u>64,397</u></b>

### 13. Heritage Assets

As set out in our Accounting Policies, Note 11) (Accounting Policies), the Council's Heritage Assets are predominantly held in the Council's Museums.



## NOTES TO THE CORE FINANCIAL STATEMENTS

### Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
<b>Cost or Valuation</b>			
01 April 2019	190,000	278	190,278
Additions			0
Revaluations			0
Adj for depreciation previously written out			0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services			0
<b>31 March 2020</b>	<b>190,000</b>	<b>278</b>	<b>190,278</b>
<b>Accumulated Depreciation and Impairment</b>			
01 April 2019	0	(29)	(29)
<b>31 March 2020</b>	<b>0</b>	<b>(29)</b>	<b>(29)</b>
<b>Net Book Value</b>			
<b>31 March 2020</b>	<b>190,000</b>	<b>249</b>	<b>190,249</b>
<b>31 March 2019</b>	<b>190,000</b>	<b>249</b>	<b>190,249</b>
	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
<b>Cost or Valuation</b>			
01 April 2020	190,000	278	190,278
Additions		0	0
Adj for depreciation previously written out			0
<b>31 March 2021</b>	<b>190,000</b>	<b>278</b>	<b>190,278</b>
<b>Accumulated Depreciation and Impairment</b>			
01 April 2020	0	(29)	(29)
Depreciation		0	0
<b>31 March 2021</b>	<b>0</b>	<b>(29)</b>	<b>(29)</b>
<b>Net Book Value</b>			
<b>31 March 2021</b>	<b>190,000</b>	<b>249</b>	<b>190,249</b>
<b>31 March 2020</b>	<b>190,000</b>	<b>249</b>	<b>190,249</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 14. Investment Properties

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

<u>2019/20</u> <u>Restated</u> £000		<u>2020/21</u> £000
(7,903)	Rental Income	(6,170)
985	Operating Expenditure	470
<b>(6,918)</b>	<b>Net (Income)/ Expenditure</b>	<b>(5,700)</b>
15,187	Net (Gains)/ Losses from fair value adjustments	6,309
<b><u>8,269</u></b>	<b>Total Net (Income) / Expenditure</b>	<b><u>609</u></b>

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

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

	<u>2019/20</u> £000	<u>2020/21</u> £000
<b>Balance at start of year</b>	<b>134,948</b>	<b>118,145</b>
Additions:		
Purchases	0	1,263
Subsequent Expenditure	0	0
Disposals	(1,366)	(1)
Net gains / (losses) from fair value adjustments	(15,187)	(6,309)
Transfers		
(to) / from Property, Plant and Equipment	(250)	0
<b>Balance at End of Year</b>	<b><u>118,145</u></b>	<b><u>113,098</u></b>

The fair value hierarchy is based on the relative reliability and relevance of the information used in the valuation. Investment properties are valued on an income approach that is based on capitalisation of current rental income and taking into account anticipated uplifts at the next rent review, lease expiry or break option. This uplift and the discount rate are derived from rates implied by market transactions of other property. The transactions from which the uplifts and discount rates are derived are not sufficiently similar for direct comparison to be made and adjustments have to be made to the observable data of

## NOTES TO THE CORE FINANCIAL STATEMENTS

comparable transactions. We therefore take the view that the inputs are unobservable i.e. level 3 for the purposes of fair value hierarchy classification.

### 15. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

Expenditure on intangible assets to date generally relates to the purchase of software. The capitalised expenditure will be depreciated over the useful life of each asset and is charged to service line(s) in the Comprehensive Income and Expenditure Statement (from the year following acquisition).

	<b><u>31 March</u></b>	<b><u>31 March</u></b>
	<b><u>2020</u></b>	<b><u>2021</u></b>
	<b>£000</b>	<b>£000</b>
Gross carrying amount	10,463	11,672
Derecognition of Assets fully amortised	(583)	0
	<b><u>9,880</u></b>	<b><u>11,672</u></b>
Accumulated amortisation	(3,169)	(4,627)
<b>Net Carrying Amount at Start of the Year</b>	<b><u>6,711</u></b>	<b><u>7,045</u></b>
Purchases	1,792	3,449
Amortisation for the period	(1,458)	(1,774)
<b>Net Carrying Amount at End of the Year</b>	<b><u><u>7,045</u></u></b>	<b><u><u>8,720</u></u></b>

### 16. Assets Held for Sale (AHFS)

As at 31 March 2021 there are no surplus assets that have been marketed for sale and are expected to be disposed of within the next 12 months and there were none in the preceding year.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 17. Financial Instruments

#### a) Financial Instruments Classifications

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

The term 'financial instrument' covers both financial assets and financial liabilities. These range from straight forward trade receivables and trade payables to more complex transactions such as financial guarantees, derivatives and embedded derivatives. The Council's borrowing, service concession arrangements (PFI and similar contracts), and investment transactions are classified as financial instruments.

#### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council. It can be represented by a contractual obligation to deliver cash or financial assets, or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

The majority of the Council's financial liabilities held during the year are measured at amortised cost and comprised:

- Long-term loans from the Public Works Loan Board (PWLB) and commercial lenders,
- Short-term loans from other local authorities,
- Overdraft with Lloyds bank,
- Private Finance Initiative contracts detailed in Note 32 (PFI and Similar Contracts), and
- Trade payables for goods and services received.

Transferred debt from Hampshire County Council is not considered to be a financial instrument, as it arises from local government reorganisation rather than a contractual agreement.

#### Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council. It is represented by cash equity instruments or a contractual right to receive cash or another financial asset or an obligation to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are held under the following classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:
  - cash in hand,
  - bank current and deposit accounts,
  - loans to other local authorities,
  - covered bonds issued by banks and building societies,
  - bonds issued by multilateral development banks and large companies,
  - loans made for service purposes,
  - trade receivables for goods and services provided.
- Fair value through profit and loss (all other financial assets) comprising:
  - money market funds managed by fund managers,
  - pooled property funds managed by CCLA fund managers,
  - equity investments

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

#### b) Financial Instruments Balances

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following tables:

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Financial Liabilities</b>	<b>Long Term</b>		<b>Short Term</b>		<b>Total</b>	
	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>Loans at amortised cost:</i>						
- Principal sum borrowed	(222,597)	(213,847)	(54,278)	(27,750)	(276,875)	(241,597)
- Accrued interest			(936)	(667)	(936)	(667)
<b>Total Borrowing</b>	<b>(222,597)</b>	<b>(213,847)</b>	<b>(55,214)</b>	<b>(28,417)</b>	<b>(277,811)</b>	<b>(242,264)</b>
<i>Loans at amortised cost:</i>						
- Bank Overdraft			(4,352)	(2,475)	(4,352)	(2,475)
<b>Total Cash Overdrawn</b>	<b>0</b>	<b>0</b>	<b>(4,352)</b>	<b>(2,475)</b>	<b>(4,352)</b>	<b>(2,475)</b>
<i>Liabilities at amortised cost:</i>						
- Finance leases						0
- PFI arrangements	(50,965)	(47,519)			(50,965)	(47,519)
- Other long-term creditors	(37)	(37)			(37)	(37)
<b>Total Long-term Creditors</b>	<b>(51,002)</b>	<b>(47,556)</b>	<b>0</b>	<b>0</b>	<b>(51,002)</b>	<b>(47,556)</b>
<i>Liabilities at amortised cost:</i>						
- PFI arrangements			(3,039)	(3,446)	(3,039)	(3,446)
- Trade payables			(26,717)	(30,048)	(26,717)	(30,048)
<b>Included in Creditors</b>	<b>0</b>	<b>0</b>	<b>(29,756)</b>	<b>(33,494)</b>	<b>(29,756)</b>	<b>(33,494)</b>
<b>Total Financial Liabilities</b>	<b>(273,599)</b>	<b>(261,403)</b>	<b>(89,322)</b>	<b>(64,386)</b>	<b>(362,921)</b>	<b>(325,789)</b>

<b>Financial Assets</b>	<b>Long Term</b>		<b>Short Term</b>		<b>Total</b>	
	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>At amortised cost</i>						
- Principal	3,033	1,029	0	2,000	3,033	3,029
- Accrued interest			141	142	141	142
<i>At fair value through profit &amp; loss</i>						
- Principal	27,000	27,000			27,000	27,000
- Accrued interest	0	0	295	292	295	292
- Fair value adjustments	(531)	(719)			(531)	(719)
<b>Total Investments</b>	<b>29,502</b>	<b>27,310</b>	<b>436</b>	<b>2,434</b>	<b>29,938</b>	<b>29,744</b>
<i>Loans and Receivables</i>						
- Principal			2,367	772	2,367	772
- Accrued interest						0
<i>At fair value through profit &amp; loss</i>						
- Principal			28,850	29,358	28,850	29,358
- Accrued interest						0
<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>31,217</b>	<b>30,130</b>	<b>31,217</b>	<b>30,130</b>
<i>At amortised costs</i>						
- Trade receivables (2019/20 restated)			24,685	22,993	24,685	22,993
- Loans made for service purposes	3,733	3,625		1	3,733	3,626
<b>Included in Debtors</b>	<b>3,733</b>	<b>3,625</b>	<b>24,685</b>	<b>22,994</b>	<b>28,418</b>	<b>26,619</b>
<b>Total Financial Assets</b>	<b>33,235</b>	<b>30,935</b>	<b>56,338</b>	<b>55,558</b>	<b>89,573</b>	<b>86,493</b>

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current investments'. This includes accrued interest on long term liabilities and investments that is payable/receivable in 2021/22.

### c) Offsetting Financial Assets and Liabilities

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Council had no financial assets or liabilities subject to an enforceable master netting arrangement or similar agreement.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### d) Financial Instruments – Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

	2019/20	2020/21			
		Financial Liabilities	Financial Assets		Total £000
		Amortised cost £000	Amortised cost £000	Fair Value through Profit & Loss £000	
Interest expense	15,266	14,708			14,708
Gains/losses on derecognition	(76)	(75)			(75)
Impairment Losses	2,969		2,024		2,024
<b>Interest Payable and Similar Charges</b>	<b>18,159</b>	<b>14,633</b>	<b>2,024</b>	<b>0</b>	<b>16,657</b>
Interest income	(1,767)		(873)	(1,169)	(2,042)
Gains/losses on derecognition	982			188	188
<b>Interest and Investment Income</b>	<b>(785)</b>	<b>0</b>	<b>(873)</b>	<b>(981)</b>	<b>(1,854)</b>
<b>Net Gain / (Loss) for the Year</b>	<b>17,374</b>	<b>14,633</b>	<b>1,151</b>	<b>(981)</b>	<b>14,803</b>

### e) Financial Instruments – Fair Values

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

The fair values of financial instruments classified at amortised cost have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2021.
- The fair values of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

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

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount.

## NOTES TO THE CORE FINANCIAL STATEMENTS

This is because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

<u>Balance Sheet</u> <u>31 March</u> <u>2020</u> <u>£000</u>	<u>Fair Value</u> <u>31 March</u> <u>2020</u> <u>£000</u>		<u>Fair Value</u> <u>Level</u>	<u>Balance Sheet</u> <u>31 March</u> <u>2021</u> <u>£000</u>	<u>Fair Value</u> <u>31 March</u> <u>2021</u> <u>£000</u>
<b><u>Financial Liabilities held at amortised cost</u></b>					
(257,875)	(311,394)	Public Works Loans	2	(222,597)	(279,635)
(9,000)	(12,990)	LOBO Loans	2	(9,000)	(12,964)
(54,004)	(84,158)	PF/Finance Lease Liabilities	2	(50,965)	(84,158)
<b>(320,879)</b>	<b>(408,542)</b>			<b>(282,562)</b>	<b>(376,757)</b>
<b><u>Liabilities for which Fair Value is not disclosed*</u></b>					
(37)		Other Long Term Creditors		(37)	
(10,936)		Short Term borrowing		(10,667)	
(4,352)		Bank Overdraft		(2,475)	
(26,717)		Trade Payables (Creditors)		(30,048)	
<b>(42,042)</b>				<b>(43,227)</b>	
<b>(362,921)</b>		<b>Total Financial Liabilities</b>		<b>(325,789)</b>	

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

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

Property funds totalling £26.3M have been moved from level 2 to level 1 of the hierarchy for 2020/21 reflecting the resumption of an active market in these instruments.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Balance</u>	<u>Fair Value</u>		<u>Fair Value</u>	<u>Balance</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2020</u>	<u>2020</u>			<u>2021</u>	<u>2021</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
<b>Financial Assets held at Fair Value through P&amp;L</b>					
28,850	28,850	Money Market Funds	1	29,358	29,358
26,469	26,469	Property Funds	1	26,281	26,281
<b>55,319</b>	<b>55,319</b>			<b>55,639</b>	<b>55,639</b>
<b>Financial Assets held at Amortised Costs</b>					
3,013	3,489	Corporate, Covered and Government Bonds	1	3,009	3,363
<b>3,013</b>	<b>3,489</b>			<b>3,009</b>	<b>3,363</b>
<b>Assets for which Fair Value is not disclosed**</b>					
<i>Recorded on balance sheet as:</i>					
3,733		Long Term Debtors		3,625	
436		Short Term investments		434	
20		Shares in unlisted companies		20	
2,367		Cash and Cash Equivalents		772	
24,685		Trade Receivables (Debtors) (2019/20 restated)		22,993	
		Other Debtors		1	
<b>31,241</b>				<b>27,845</b>	
<b>89,573</b>		<b>Total Financial Assets</b>		<b>86,493</b>	

\*\*The Council holds shares in the UK Municipal Bond Agency which are carried at cost of £20k because their fair value cannot be measured reliably. This is because the company has no established trading history and there are no similar companies whose shares are traded, and which might provide comparable market data.

### f) Financial Instruments – Risks

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

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

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

The main risks covered are:

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



## NOTES TO THE CORE FINANCIAL STATEMENTS

### g) Credit Risk

#### Treasury Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK Government and other local authorities and organisations without credit ratings upon which the Council will receive independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

A maximum limit of £10M can be invested with a single counterparty (other than the UK Government) subject to this being no more than 10% of total investments. For unsecured investments in banks, building societies and companies, a smaller limit of £5M applies and in the case of money market funds being no more than 0.5% of any one individual fund. The Council also sets a total group investment limit for institutions that are part of the same banking group. A limit is also set for investments which can be invested for periods over one year.

The Council has no historical experience of counterparty default but its exposure to credit risk in relation to its investments of £59.9M (2019/20 £61.2M) cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2021 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement, approved by Governance Committee on 10 February 2020. The Treasury Strategy can be seen as Item 35 on the Agenda found via the following web link:

[Treasury Management Strategy and Prudential Limits 2020/21 to 2023/24](#)

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2021 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

Credit Rating	Long Term		Short Term	
	2020 £000	2021 £000	2020 £000	2021 £000
AAA	3,013	1,009	295	2,142
AA+			0	0
AA			10	0
AA-			16,839	12,000
A+			12,000	18,028
A			2,368	102
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	26,469	26,281	141	292
<b>Total Investments</b>	<b>29,502</b>	<b>27,310</b>	<b>31,653</b>	<b>32,564</b>

\* Credit risk is not applicable to shareholdings and pooled funds where the Council has no contractual right to receive any sum of money. For risks relating to pooled funds see "Price Risk" below.

The above analysis shows that all deposits outstanding as at 31 March 2021 met the Council's minimum credit rating criteria of A- or above.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Deposits are restricted by the council's treasury strategy to institutions with high credit ratings as specified above and will be recalled if these fall below the Council's minimum credit rating criteria. The 12 month expected credit losses have been calculated applying risk factors provided by the Council's treasury management advisors and the calculated loss allowance relating to treasury investments at 31 March 2021 was £0.002M (2020: £0.007M) but as this falls below the Council's de-minimis level no offset was made.

### Trade Receivables

The Council's maximum exposure to credit risk is set out below. As per the Code requirements, this only includes debtors that have arisen as a result of trading activities. Balances and transactions arising from statutory functions, (e.g. council tax, business rates), are excluded as they have not arisen from contractual trading activities.

<b><u>Trade Debtors and Impairment Allowance</u></b>		
	<b><u>Outstanding</u></b> <b><u>31 March 2020</u></b> <b>£000</b>	<b><u>Outstanding</u></b> <b><u>31 March 2021</u></b> <b>£000</b>
Trade Debtors (2019/20 restated)	24,685	<b>22,993</b>
Trade Debtors Impairment Allowance	(6,830)	<b>(7,484)</b>

Trade debtors are not subject to internal credit rating and have been collectively assessed in the following groupings for the purposes of calculating expected credit losses:

- Adult Social Care clients (£1.455M)
- Housing tenants (£5.520M)
- Other service recipients (£0.509M)

Expected credit losses are calculated using provision matrices based on historical data for defaults adjusted for current and forecast economic conditions.

Debt write-off is considered when normal recovery procedures have been unable to secure payment. Prior to write-off, all possible action will have been taken to secure the debt, however the extent to which it is pursued is dependent on the amount of the debt and the financial circumstances of the debtor.

The following analysis summarises the Council's trade debtors by due date.

<b><u>2019/20</u></b> <b><u>Restated</u></b> <b>£000</b>	<b><u>Trade debtors, analysed by age</u></b>	<b><u>2020/21</u></b> <b>£000</b>
7,629	Less than two months	8,515
7,694	Two to six months	5,098
4,383	Six months to one year	4,605
4,979	More than one year	4,775
<b><u>24,685</u></b>		<b><u>22,993</u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### h) Liquidity Risk

The Council has ready access to borrowing at favourable rates from the PWLB and other local authorities and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates, this is managed by maintaining a spread of fixed rate loans and ensuring that no more than 45% of the Council's borrowing matures in any one financial year.

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.

The maturity analysis of the principal borrowed as at 31 March 2021 was as follows:

<u>Outstanding</u> <u>31 March 2020</u>	<u>% of Total</u> <u>Portfolio</u>	<b>Total Financial Liabilities</b>	<u>Outstanding</u> <u>31 March 2021</u>	<u>% of Total</u> <u>Portfolio</u>
<b>£000</b>	<b>%</b>		<b>£000</b>	<b>%</b>
(257,875)	71	Public Works Loan Board	(222,597)	68
(19,000)	5	Other Financial Institutions (borrowing)	(19,000)	6
(26,717)	7	Trade Payables	(30,048)	9
(59,329)	17	Other Financial Institutions	(54,144)	17
<b>(362,921)</b>	<b>100</b>		<b>(325,789)</b>	<b>100</b>
<b>Analysis of Loans by Maturity</b>				
(80,322)	22	Less than 1 Year	(55,387)	17
(12,196)	3	Between 1 and 2 years	(9,143)	3
(28,413)	8	Between 2 and 5 years	(28,755)	9
(50,084)	14	Between 5 and 10 years	(52,131)	16
(59,059)	16	Between 10 and 20 years	(42,526)	13
(109,600)	30	Between 20 and 40 years	(124,600)	38
(14,247)	4	Over 40	(4,247)	1
(9,000)	3	Uncertain Date**	(9,000)	3
<b>(362,921)</b>	<b>100</b>		<b>(325,789)</b>	<b>100</b>

\*Please note that the authority has £9M of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay these loans. The maturity date is therefore uncertain, however it is treated as short term within the accounts because the loans could be called within the year.

The Council's long term liabilities (which include borrowing detailed in the previous table) are shown in the table below:

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Loans and Other Long term Liabilities Outstanding (Nominal Value)

<b>Source</b>	<b>Outstanding</b>	<b>Outstanding</b>
	<b>31 March 2020</b>	<b>31 March 2021</b>
	<b>£000</b>	<b>£000</b>
Public Works Loan Board	(257,875)	(222,597)
Market Debt	(9,000)	(9,000)
Temporary Borrowing	(10,000)	(10,000)
PFI Liabilities	(54,004)	(50,965)
Other long-term Creditors	(37)	(37)
<b>Total</b>	<b>(330,916)</b>	<b>(292,599)</b>

### i) Market Risk

#### Interest Rate Risk

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

- Borrowings at variable rates – the interest expense will rise
- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest income credited will rise
- Investments at fixed rates – the fair value of the assets will fall

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

Movements in the fair value of fixed rate investments measured at fair value will be reflected in the Surplus or Deficit on the Provision of Services.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2021 £280.10M (120%) (2019/20 £308.4M (114%)) of net principal borrowed (i.e. debt net of investments) was at fixed rates and £47.4M (2019/20 £38.7M) net investments exposed to variable rates.

The table below shows that the risk to the provision of services of changes in interest rates. This reflects the requirement under IFRS 9 to show the impact of a decrease in the fair value of pooled investment funds and that the Council has taken on additional risk by increasing the amount it intends to borrow short term in place of taking long term fixed rate debt. Even if the increase in short term borrowing rate was to materialise it would still be cheaper than borrowing the money long term.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

2019/20		2020/21	
£000		£000	
3,500	Increase in interest payable on variable rate borrowings	1,750	
(500)	Increase in interest payable on variable rate investments	(500)	
1,288	Decrease in fair value of investments held at FVPL (assumes 5%)	1,281	
<b>4,288</b>	<b>Impact on the Provision of Services (Surplus) / Deficit</b>	<b>2,531</b>	
375	Share of overall impact debited/credited to HRA	836	
(62,269)	Decrease in fair value of fixed rate borrowings/liabilities held at amortised cost ( <i>no impact on Comprehensive Income and Expenditure</i> )	(62,467)	

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

The Council has £9M (2019: £9M) of "Lender's option, borrower's option" (LOBO) loans with maturity dates between 2035 and 2042 where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. In the current low interest rate environment, the likelihood of lender increasing the rate is low; however the likelihood will increase in later years should market interest rates rise.

### Price Risk

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments. As at 31 March 2021 the Council had £27M (2019/20 £27M) invested in the Local Authority Property Fund which was valued with a reduction in fair value of £0.188M (2019/20 £0.982M reduction), taking the fair value from £26.47M to £26.28M. A 5% fall in commercial property prices would result in a £1.28M (2019/20 £1.29M) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

## 18. Debtors

The Long Term Debtors balance represents loans and advances due to the Council as at 31 March 2021.

<u>31 March</u>		<u>31 March</u>	
<u>2020</u>		<u>2021</u>	
£000		£000	
3,721	Housing Improvement Loans	3,625	
12	Other	0	
<b>3,733</b>		<b>3,625</b>	

The Short Term Debtors balance represents the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2021.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Debtors</u>		
<u>31 March</u> <u>2020</u>		<u>31 March</u> <u>2021</u>
<u>£000</u>		<u>£000</u>
13,564	Central Government	28,502
4,859	Other Local Authorities	4,332
1,881	NHS Bodies	5,682
56,936	Other Entities and Individuals	60,503
(29,650)	Debtors Impairment Allowance	(27,495)
<u>47,590</u>	<b>Total Debtors</b>	<u>71,524</u>

The debtors balance with central government as at 31 March 2021 includes £17.1M due for the government's share of the business rates deficit on the Collection Fund.

### 19. Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and will also include bank overdrafts that are repayable on demand and that are integral to the authority's cash management. Balances classified as 'Cash Equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Although the balance shown below suggests that the bank accounts were overdrawn by £2.5M (2019/20 £4.4M), the Council's actual bank account balance at the Bank was a credit balance of £2.6M at 31 March 2021 (£0.2M at 31 March 2020). The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council's bank account will not actually go overdrawn because future income receipts will cover any outstanding year end payment commitments. Alternatively, the Council can withdraw from Money Market Funds and Call Accounts, or access temporary borrowing on the Money Markets if required.

The net balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

<u>31 March</u> <u>2020</u>		<u>31 March</u> <u>2021</u>
<u>£000</u>		<u>£000</u>
(4,352)	Bank Accounts	(2,475)
(4,352)		(2,475)
28,850	Money Market Funds	29,358
2,265	Call Accounts	670
102	Petty Cash	102
<u>31,217</u>		<u>30,130</u>
<u>26,865</u>		<u>27,655</u>

### 20. Creditors

The Creditors balance represents the estimated outstanding liabilities as at 31 March 2021.

The creditors balance with central government includes £17.6M of business support grants where the Council is acting as an agent of the government in administering the funds and £24.7M of S31 business rates reliefs grant. The latter was paid to the Council so that it could continue to pay relevant parties their share of business

## NOTES TO THE CORE FINANCIAL STATEMENTS

rates income as estimated in January 2020 without suffering cash flow problems due to the award of significant additional reliefs to support particular business sectors during the pandemic and is now repayable. The increase in the balance for other entities and individuals is mainly due to the timing of the final payment run for the year.

<u>Creditors</u>		<u>31 March</u> <u>2021</u> <u>£000</u>
<u>31 March</u> <u>2020</u> <u>£000</u>		
21,599	Central Government	64,265
3,198	Other Local Authorities	3,003
920	NHS Bodies	2,231
47,140	Other Entities and Individuals	56,775
<u>72,857</u>	<b>Total Creditors</b>	<u>126,274</u>

## 21. Provisions

Provisions are amounts set aside each year for specific future expenses, the value of which cannot yet be accurately determined. The provisions, as shown in the balance sheet, are analysed in the following table:

	<u>Balance at 31</u> <u>March 2020</u> <u>£000</u>	<u>Additional Provisions</u> <u>Made in Year</u> <u>£000</u>	<u>Amounts Used</u> <u>in Year</u> <u>£000</u>	<u>Balance at 31</u> <u>March 2021</u> <u>£000</u>
<u>General Fund</u>				
NDR Appeals Provision	13,042	9,577	(13,909)	8,710
General Insurance Funds	2,156	793	(340)	2,609
Other Provisions	91	0	(91)	0
<b>Total</b>	<u>15,289</u>	<u>10,370</u>	<u>(14,340)</u>	<u>11,319</u>

The Provisions are estimated to be utilised as follows:

	<u>Short Term</u> <u>Due within 1</u> <u>Year</u> <u>£000</u>	<u>Due between 2</u> <u>to 5 years</u> <u>£000</u>	<u>Over 5 years</u> <u>£000</u>	<u>Total Long</u> <u>Term</u> <u>£000</u>	<u>Balance at 31</u> <u>March 2021</u> <u>£000</u>
<u>General Fund</u>					
NDR Appeals Provision	5,356	3,354	0	3,354	8,710
General Insurance Funds	580	2,029	0	2,029	2,609
Other Provisions	0	0	0	0	0
<b>Total</b>	<u>5,936</u>	<u>5,383</u>	<u>0</u>	<u>5,383</u>	<u>11,319</u>

### a) NDR Appeals Provision

Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in year and earlier years. Therefore, the Council's share of the provision (2020/21 49%, 2019/20 74%) has been recognised as the best estimate of

## NOTES TO THE CORE FINANCIAL STATEMENTS

the amount that businesses have been overcharged up to 31 March 2021.

The estimate is based on an assessment by an external advisor of the likely success of the appeals/challenge outstanding on the Valuation Office Agency (VOA) list and projected appeals. The estimate does not include an amount for challenges for COVID-19 related material changes in circumstances, following ministerial announcement in March 2021 that government will legislate to rule these out.

The amount used in year includes the effect of having a lower share of the provision balance at 31 March 2021 compared to the previous year, with standard 50% Business Rates Retention Scheme being in operation in 2020/21 compared to a 75% Business Rates Retention Pilot in 2019/20.

### b) Insurance Provisions

The Insurance Funds are used to meet claims that fall within the policy excess or deductible, i.e. where the Council has taken advantage of 'self-insurance'. All liability and property claims settled below £125,000 and £40,000 respectively are met from the internal insurance funds together with all motor claims below £25,000. Contributions to the fund are reviewed annually based on factors such as exposure, (e.g. employee numbers, nature of operations, sums insured, vehicle numbers), claims experience and outstanding liabilities.

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2021 amounted to £2.6M (2019/20 £2.1M). Additionally, a further £2.4M (2019/20 £2.4M) is held in an insurance reserve to meet the potential cost of liability claims, including motor and third party injury, for which there is no commitment on the Council to pay the claim. The merits of each claim are investigated and claims will only be considered where it is deemed that the Council has been negligent or is at fault and is legally liable to pay compensation. The provision figure against an individual claim is reviewed periodically by the claims handler when further information becomes available regarding the circumstances of the claim, extent of injury, value of loss etc. The expected timing of any resulting transfer of economic benefit, where it is deemed that compensation should be paid, is impossible to state and it is dependent on the claims settlement process and ultimately the decision of the Courts.

The fund position is fluid which reflects the ongoing process of claims being settled and new claims being received. The insurance funds are however monitored on a monthly basis to ensure that overall provision remains adequate. In addition, consideration is taken of any external factors that might affect the adequacy of the Council's self-insurance fund for example changes to the discount rate which is the rate used to calculate personal injury compensation awards.

### c) Other Provisions

All other provisions have been used up during the year.

## 22. Unusable Reserves

### a) Revaluation Reserve

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

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

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



## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u> <u>£000</u>		<u>2020/21</u> <u>£000</u>
(382,661)	Balance Brought Forward	(411,319)
(77,085)	Upward revaluations of assets	(30,888)
41,991	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	15,781
(35,094)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(15,107)
5,867	Difference between fair value depreciation and historical cost depreciation	5,591
569	Accumulated Revaluations on Disposals	6,020
<u>(411,319)</u>	<b>Balance Carried Forward</b>	<u>(414,815)</u>

### b) Capital Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 10 (Adjustments between Accounting Basis and Funding Basis Under Regulations) provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u> £000		<u>2020/21</u> £000
(875,433)	Balance Brought Forward	(861,080)
	<b>Capital Financing</b>	
(8,205)	Usable Capital Receipts	(16,829)
(36,192)	Capital Grants & Contributions	(32,918)
(19,597)	HRA Financing from the Major Repairs Reserve	(19,056)
(11,834)	Revenue Contributions	(7,847)
	<b>Other Movements</b>	
4,023	Revenue Expenditure Funded from Capital under Statute	6,081
	Net gains/losses from fair value adjustments on Investment	
15,187	Properties	6,309
1,458	Amortisation of Intangibles	1,774
76,010	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	8,931
9,217	Disposals	13,575
(5,867)	Historic Cost Depreciation Adjustment	(5,591)
(569)	Accumulated Revaluations on Disposals	(6,020)
(9,303)	Provision for the Financing of Capital Investment	(9,907)
25	Other adjustments	78
<u>(861,080)</u>	<b>Balance Carried Forward</b>	<u>(922,500)</u>

### c) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them.

The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>		<u>2020/21</u>
<u>£000</u>		<u>£000</u>
459,640	Balance Brought Forward	492,146
8,970	Remeasurement of the net defined benefit liability/(asset)	61,780
55,716	Reversal of items relating to retirement benefits debited or credited to the Surplus or deficit on the Provision of Services in the comprehensive Income and Expenditure Statement	55,505
(32,180)	Employer's pension contributions and direct payments to pensioners payable in the year.	(22,712)
<u><b>492,146</b></u>	<b>Balance Carried Forward</b>	<u><b>586,719</b></u>

### d) Collection Fund Adjustment Account

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

The large difference for business rates arises from the additional business rates reliefs given to support particular business sectors during the pandemic which was not reflected in the business rates income estimated in January 2020 and paid across to the General Fund in 2020/21.

<u>2019/20</u>		<u>2020/21</u>
<u>£000</u>		<u>£000</u>
(5,516)	Balance Brought Forward	1,159
3,490	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,230)
3,185	Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	25,861
<u><b>1,159</b></u>	<b>Balance Carried Forward</b>	<u><b>25,790</b></u>

### e) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences, for staff, earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account. For 2020/21 annual leave carried forward has been accrued for non-teaching as well as teaching staff because the amount of leave non-teaching staff could carry forward was increased significantly in response to the pandemic.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>		<u>2020/21</u>
<u>£000</u>		<u>£000</u>
1,730	Balance Brought Forward	1,949
(1,730)	Settlement or cancellation of accrual made at the end of the preceding year	(1,949)
<u>1,949</u>	Amounts accrued at the end of the current year	<u>3,905</u>
<u><b>1,949</b></u>	<b>Balance Carried Forward</b>	<u><b>3,905</b></u>

### f) Dedicated Schools Grant Adjustment Account

Regulations effective from 1 April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account, but instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account has been created for that purpose and the in-year deficit for 2020/21 and cumulative deficit brought forward as at 1 April 2020 have been transferred into that account.

Further details on the deployment of DSG are provided in Note 28.

<u>2019/20</u>		<u>2020/21</u>
<u>£000</u>		<u>£000</u>
0	Balance Brought Forward	0
	Transfer of the opening Dedicated Schools Grant deficit from earmarked revenue reserves	7,420
	Reversal of the deficit on the Dedicated Schools Grant within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	1,514
<u><b>0</b></u>	<b>Balance Carried Forward</b>	<u><b>8,934</b></u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 23. Notes to Cash Flow Statement

#### a) Reconciliation of Net Surplus or (Deficit) on the Provision of Services to Net Cash Flows from Operating Activities

<u>2019/20</u>		<u>2020/21</u>
£000		£000
<b>(31,850)</b>	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>15,351</b>
	<b>Adjust net surplus or deficit on the provision of services for non cash movements</b>	
43,647	Depreciation	47,455
32,363	Movement on assets charged to revenue	(38,524)
1,458	Amortisation	1,774
0	Adjustments for effective interest rates	0
	Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss	188
(920)	Increase/(Decrease) in Interest Creditors	(269)
(10,674)	Increase/(Decrease) in Creditors	59,554
16	(Increase)/Decrease in Interest and Dividend Debtors	6
(8,659)	(Increase)/Decrease in Debtors	(5,921)
(18)	(Increase)/Decrease in Inventories	(184)
23,536	Pension Liability	32,793
(4,168)	Contributions to/(from) Provisions	(3,970)
9,217	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	13,575
15,187	Movement in Investment Property Values	6,309
(3,696)	Other Items	18
<b>98,271</b>		<b>112,804</b>
	<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</b>	
(57,595)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(31,037)
(12,117)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(4,479)
0	Repayment of loans - transfer to the Capital Receipts Reserve upon receipt of cash	(78)
(160)	Allowable deduction arising from disposal	(66)
<b>(69,872)</b>		<b>(35,660)</b>
<b><u>(3,451)</u></b>	<b>Net Cash Flows from Operating Activities</b>	<b><u>92,495</u></b>

#### b) Operating Activities – Interest

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	<b>Operating activities within the cashflow statement include the following cash flows relating to interest</b>	
801	Interest Received	1,860
(16,085)	Interest Paid	(14,902)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### c) Cash Flows from Investing Activities

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	<b>Cash Flows from Investing Activities</b>	
(88,398)	Property, Plant and Equipment Purchased	(80,346)
(73,840)	Purchase of short term investments	(208,020)
12,312	Proceeds from the sale of property plant and equipment, investment property and intangible assets	4,545
87,440	Proceeds from short-term and long-term investments	208,020
40,133	Other Receipts from Investing Activities - Capital Grants & Contributions Received	45,148
<u>(22,353)</u>	<b>Total Cash Flows from Investing Activities</b>	<u>(30,653)</u>

### d) Cash Flows from Financing Activities

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	<b>Cash Flows from Financing Activities</b>	
124,000	Cash receipts of short and long term borrowing	40,000
2,597	Billing Authorities - Council Tax and NNDR adjustments	(22,371)
(93,833)	Repayment of Short-Term and Long-Term Borrowing	(75,642)
(2,874)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,039)
<u>29,890</u>	<b>Total Cash Flows from Financing Activities</b>	<u>(61,052)</u>

### e) Make-up of Cash and Cash Equivalents

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	<b>Makeup of Cash and Cash Equivalents</b>	
102	Cash and Bank Balances	102
31,115	Cash Investments - regarded as cash equivalents	30,028
(4,352)	Bank Overdraft	(2,475)
<u>26,865</u>		<u>27,655</u>

### f) Changes in liabilities

	<u>1 April 2020</u>	<u>Cash Flows</u>	<u>Non-Cash</u> <u>Movements</u>	<u>31 March</u> <u>2021</u>
	£000	£000	£000	£000
Long-term borrowing	222,597	0	(8,750)	213,847
Short-term borrowing	55,214	(36,214)	9,417	28,417
Other deferred liabilities	13,826	(364)		13,462
Finance leases and PFI contracts	54,004	(3,039)		50,965
Total	<u>345,641</u>	<u>(39,617)</u>	<u>667</u>	<u>306,691</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 24. Agency Services

Under a number of statutory powers, the Council is permitted to undertake work on behalf of other bodies. Under such arrangements all expenditure, including administration costs, would be reimbursed by the entity concerned.

The collection of council tax and business rates income is in substance an agency arrangement:

Cash collected by Southampton City Council from council tax payers belongs proportionately to Southampton City Council and the major preceptors. There will therefore be a debtor/creditor position between Southampton City Council and each major preceptor to be recognised, since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council tax payers.

Cash collected from business rates payers by Southampton City Council (net of the cost of collection allowance) belongs proportionately to Southampton City Council (49%), Government (50%) and Hampshire Fire and Rescue Authority (1%) (2019/20 Southampton City Council 74%, Government 25% and Hampshire Fire and Rescue Authority 1%). There will therefore be a debtor/creditor position between Southampton City Council and Government and HFRA to be recognised since the cash paid in year will not be its share of the cash collected from business rates payers.

The Council also acts as agent under the Business Improvement District (BID) scheme.

During 2020/21 the Council has made grant payments to businesses, adult social care providers and members of the community on behalf of the government. The Council is acting as an agent in making these disbursements and the income and expenditure to which they relate are not included within the Comprehensive Income and Expenditure Statement. Further details of the grant funding received by the Council which has been disbursed is provided in Note 37.

### 25. Members' Allowances

The total of members' allowances paid in was £0.790M (2019/20 was £0.763M) as detailed in the table below.

	<u>31 March</u> <u>2020</u> £000	<u>31 March</u> <u>2021</u> £000
Salaries	607	623
Allowances	152	162
Expenses	4	5
Total	<u>763</u>	<u>790</u>

### 26. Officers' Remuneration

The number of employees (including Senior Officers) whose remuneration, including redundancy payments but excluding pension contributions, was £50,000 or more is shown in the table below.

#### a) Senior Officers' Remuneration

Local authorities are required to disclose the remuneration details of senior employees, as defined by the CIPFA Code of Practice as derived from (and supplemented by) the overarching requirements of the Accounts and Audit (England) Regulations 2015. Senior employees are the Chief Executive, Statutory Officers and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief

## NOTES TO THE CORE FINANCIAL STATEMENTS

Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2019/20.

<u>Band £</u>	<u>Number of Employees</u>					
	<u>2019/20</u>			<u>2020/21</u>		
	<u>Schools</u>	<u>Other</u>	<u>Total</u>	<u>Schools</u>	<u>Other</u>	<u>Total</u>
50,000 - 54,999	61	74	135	65	95	160
55,000 - 59,999	36	29	65	45	61	106
60,000 - 64,999	23	22	45	18	27	45
65,000 - 69,999	20	8	28	26	14	40
70,000 - 74,999	10	7	17	19	4	23
75,000 - 79,999	7	1	8	6	4	10
80,000 - 84,999	3	4	7	4	7	11
85,000 - 89,999	1	1	2	1	0	1
90,000 - 94,999	0	1	1	2	3	5
95,000 - 99,999	2	4	6	0	1	1
100,000 - 104,999	1	0	1	1	2	3
105,000 - 109,999	2	1	3	2	2	4
110,000 - 114,999	0	1	1	0	1	1
115,000 - 119,999	1	2	3	0	1	1
120,000 - 124,999	1	1	2	1	0	1
125,000 - 129,999	1	1	2	0	0	0
130,000 - 134,999	0	0	0	1	3	4
135,000 - 139,999	0	0	0	0	1	1
140,000 - 144,999	0	2	2	0	0	0
145,000 - 149,999	0	0	0	0	0	0
150,000 - 154,999	0	0	0	0	1	1
155,000 - 159,999	0	0	0	0	0	0
160,000 - 164,999	0	0	0	0	0	0
165,000 - 169,999	0	0	0	0	0	0
170,000 - 174,999	0	1	1	0	0	0
175,000 - 179,999	0	0	0	0	0	0
180,000 - 184,999	0	0	0	0	1	1
	<b>169</b>	<b>160</b>	<b>329</b>	<b>191</b>	<b>228</b>	<b>419</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

**2020/21**

<b>Post Holder</b>	<u>Salary (including fees &amp; allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	<u>Total Remuneration excluding pension contributions 2020/21</u>	<u>Pensions contributions (see Note 4)</u>	<u>Total Remuneration including pension contributions 2020/21</u>
	£	£	£	£	£	£	£
<b>Chief Executive</b> - Sandy Hopkins	181,881				181,881	26,218	208,099
<b>Executive Director - Business Services (Deputy Chief Executive)</b> - Mike Harris	134,417				134,417	24,464	158,881
<b>Executive Director - Communities, Culture &amp; Homes</b> - Mary D'Arcy	134,417	33			134,450	24,464	158,914
<b>Executive Director - Place</b> - Kate Martin	134,417				134,417	24,464	158,881
<b>Executive Director - Wellbeing (Children &amp; Learning)</b> until 05/06/2020 - Hilary Brooks ( see Note 1)	30,542		63,000		93,542	4,299	97,841
<b>Executive Director - Wellbeing (Children &amp; Learning)</b> from 07/09/2020 - Robert Henderson	85,000				85,000	15,470	100,470
<b>Executive Director - Wellbeing (Health &amp; Adults DASS)</b> until 28/03/2021 - Grainne Siggins (see Note 2)	150,962	3,508			154,470	26,087	180,557
<b>Service Director Legal &amp; Governance</b> - Richard Ivory	118,848	81			118,929		118,929
<b>Executive Director - Finance &amp; Commercialisation</b> - John Harrison	138,126				138,126		138,126
	<b>1,108,610</b>	<b>3,622</b>	<b>63,000</b>	-	<b>1,175,232</b>	<b>145,466</b>	<b>1,320,698</b>

**Note 1**

Between 06/06/2020 and 06/09/2020 the Wellbeing (Children & Learning) role was undertaken by Grainne Siggins, in addition to Wellbeing (Health & Adults DASS).

**Note 2**

Between 01/03/2021 and 31/03/2021 this role was undertaken by Guy van Dichele via an external company. Payment for this period was £22,080 excluding VAT.

**Note 3**

There were no bonuses paid.

**Note 4**

In 2020/21 the employer's contribution rate for the Local Government Pension Scheme was 18.2%.

# NOTES TO THE CORE FINANCIAL STATEMENTS

2019/20

<u>Post Holder</u>	<u>Salary</u> (including <u>fees &amp;</u> <u>allowances</u> )	<u>Expense</u> <u>Allowances</u>	<u>Compensation</u> <u>for loss of</u> <u>office</u>	<u>Benefits in</u> <u>Kind</u>	<u>Total</u> <u>Remuneration</u> <u>excluding</u> <u>pension</u> <u>contributions</u> <u>2019/20</u>	<u>Pensions</u> <u>contributions</u> (see Note 6)	<u>Total</u> <u>Remuneration</u> <u>including</u> <u>pension</u> <u>contributions</u> <u>2019/20</u>
	£	£	£	£	£	£	£
<b>Chief Executive</b>							
- Sandy Hopkins	171,032				171,032	34,420	205,452
<b>Chief Operations Officer</b> until 31/10/2019							
- Richard Crouch (see Note 1)	86,943		42,769		129,712	213,366	343,078
<b>Executive Director - Business Services (Deputy Chief Executive)</b>							
- Mike Harris	141,808	212			142,020	22,831	164,851
<b>Executive Director - Communities, Culture &amp; Homes</b> from 23/03/2020							
- Mary D'Arcy	3,165				3,165	510	3,675
<b>Executive Director - Place</b> from 29/02/2020							
- Kate Martin	11,278				11,278	1,816	13,094
<b>Executive Director - Wellbeing (Children &amp; Learning)</b>							
- Hilary Brooks	122,896	1,049			123,945	19,786	143,731
<b>Executive Director - Wellbeing (Health &amp; Adults DASS)</b> from 06/01/2020							
- Grainne Siggins (see Note 2)	30,946				30,946	4,982	35,928
<b>Joint Director of Public Health</b> until 22/11/2019							
- Jason Horsley (see Note 3)	72,540				72,540	11,441	83,981
<b>Service Director Legal &amp; Governance</b>							
- Richard Ivory	115,667	1,523			117,190		117,190
<b>Executive Director - Finance &amp; Commercialisation</b> from 21/10/2019							
- John Harrison (see Note 4)	58,376	8,773			67,149		67,149
	<b>814,651</b>	<b>11,557</b>	<b>42,769</b>	<b>-</b>	<b>868,977</b>	<b>309,152</b>	<b>1,178,129</b>

**Note 1**

Pension contributions include £199,368 in respect of loss of office.

**Note 2**

Between 01/04/2019 and 05/01/2020 the DASS role was undertaken by Stephanie Ramsey via NHS Southampton City CCG. Payment for this period was £5,000.

**Note 3**

This role was jointly funded by Southampton City Council and Portsmouth City Council. Although all costs are shown here, 50% is recovered from Portsmouth City Council.

**Note 4**

Between 01/04/2019 and 20/10/2019 this role was undertaken by John Harrison via an external company. Payment for this period was £133,340 excluding VAT.

**Note 5**

There were no bonuses paid.

**Note 6**

In 2019/20 the employer's contribution rate for the Local Government Pension Scheme was 16.1%.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £0.4M (2019/20 £3.2M) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. Details of exit packages for the past two years are shown in the table below.

<u>Exit Package Cost Band</u> (including special payments)	<u>Number of compulsory Redundancies</u>		<u>Number of Other Departures agreed</u>		<u>Total Number of packages by Cost Band</u>		<u>Total Cost of Exit Packages in each Band</u>	
	<u>2019/20</u>	<u>2020/21</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2019/20</u>	<u>2020/21</u>
							£000	£000
£0-£20,000	11	4	43	14	54	18	457	170
£20,001-£40,000	2	1	17	4	19	5	541	136
£40,001-£60,000	1	0	9	0	10	0	498	0
£60,001-£80,000	0	0	5	2	5	2	346	137
£80,001-£100,000	0	0	2	0	2	0	187	0
£100,001-£150,000	0	0	3	0	3	0	375	0
£150,000+	0	0	4	0	4	0	834	0
<b>Total</b>	<b>14</b>	<b>5</b>	<b>83</b>	<b>20</b>	<b>97</b>	<b>25</b>	<b>3,238</b>	<b>443</b>

### 27. External Audit Costs

The Council's appointed auditors are Ernst & Young. The Council incurred the following fees relating to external audit and inspection.

<u>2019/20</u>	<u>2020/21</u>
£000	£000
110 Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	110
4 Fees payable to Ernst & Young in respect of grant claims and returns for the year	0
8 Fees payable to Fiander Tovell in respect of grant claims and returns for the year	7
12 Fees payable to KPMG in respect of grant claims and returns for the year	10
<b>134</b>	<b>127</b>

### 28. Dedicated Schools Grants

The Council's expenditure on schools is grant funded, provided by the Department for Education (DfE) and is mainly the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Details of the deployment of DSG receivable for the year are as follows:

<b><u>Details of the Deployment of DSG Receivable for 2020/21 are as follows:</u></b>			
	<b><u>Central Expenditure</u></b>	<b><u>Individual Schools Budget</u></b>	<b><u>Total</u></b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Final DSG for 2020/21 before Academy recoupment			199,614
Academy figure recouped for 2020/21			(63,905)
<b>Total DSG after Academy Recoupment for 2020/21</b>			<b>135,709</b>
Plus: Brought forward from 2019/20			<b>(7,420)</b>
Agreed initial budgeted distribution in 2020/21	<b>6,911</b>	<b>121,378</b>	<b>128,289</b>
In year adjustments		(268)	(268)
<b>Final Budgeted Distribution for 2020/21</b>	<b>6,911</b>	<b>121,110</b>	<b>128,021</b>
Less: Actual central expenditure	(15,376)		(15,376)
Less: Actual ISB deployed to schools		(121,579)	(121,579)
<b>Carry Forward to 2021/22</b>	<b>(8,465)</b>	<b>(469)</b>	<b>(8,934)</b>

The overspend carried forward mainly relates to the cost of additional out of city placements and higher numbers and more complex level of pupils with Special Educational Needs (SEN). Plans have been made to repay the DSG overspend over the coming years in line with DfE guidance.

### 29. Related Parties

The Accounting Code of Practice requires the Council to disclose material transactions and outstanding balances with related parties. Reduced disclosure requirements apply to related party transactions with central government departments, government agencies, NHS bodies and other local authorities. For the City Council a "Related Party" is considered to be:

- Central Government and other local authorities,
- Any joint arrangement with another public body,
- Any subsidiary, associated company or joint venture,
- Elected Members,
- Senior Officers,
- The Council's pension fund
- Entities that are controlled or jointly controlled by elected members or senior officers, or over which they have significant influence.

During the year major transactions with related parties arose with: Hampshire Pension Fund and the Teachers' Pension Agency as disclosed in Note 33 Pension Schemes accounted for as a Defined Contribution Schemes and Note 34 Defined Benefit Pension Schemes; Southampton Clinical Commissioning Group as disclosed in Note 39 Pooled Budgets; and Central Government which has effective control over the

## NOTES TO THE CORE FINANCIAL STATEMENTS

general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants, shown in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance. The payment of precepts to the Hampshire Police and Crime Commissioner and Hampshire Fire & Rescue Authority are not considered to be related party transactions, as the Collection Fund operates on an agency basis.

The city of Southampton is preparing to submit a bid to become the UK City of Culture 2025. Southampton City Council, along with other partners across the city, is helping to support the bid process. Southampton 2025 Trust is the organisation that will be leading on the submission of the bid. The Council provided £0.551M of grant funding and benefits-in-kind to support the bid process in 2020/21 (of which £0.067M was due to the Trust as at 31 March 2021).

For elected members and senior officers it also includes members of their close family, their households and any company, trust etc. in which they have a controlling interest. Elected members and senior officers were requested to disclose any related party transactions which are as follows:

- One councillor is a trustee of Yellow Door which received service payments of £0.460M from the Council in 2020/21. The councillor was not involved in the award of the contract.
- One councillor is a trustee of Southampton Advice and Representation Centre which received service payments of £0.104M from the Council in 2020/21. The councillor was not involved in the award of the contract.
- One councillor is a trustee of Northam Community Link which received payments of £0.016M from the Council in 2020/21, mostly for annual rental charges.
- Four councillors had interests in organisations that received funding administered by the Council as part of the government's schemes to support businesses during the pandemic. The total amount awarded to these organisations was £0.106M and none of the councillors had any involvement in the award of the grants.

### 30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b><u>CAPITAL EXPENDITURE AND FINANCING</u></b>		
	<b><u>2019/20</u></b>	<b><u>2020/21</u></b>
	<b>£000</b>	<b>£000</b>
<b>Opening Capital Financing Requirement</b>	<b>496,753</b>	<b>508,710</b>
<b><i>Capital Investment</i></b>		
Intangible assets	1,792	3,449
Property Plant & Equipment	87,552	73,385
Revenue Expenditure Funded from Capital under Statute	4,023	6,081
Heritage Assets	0	0
Investment Properties	0	1,263
Financial Instruments (Housing Improvement Loans)	3,721	(18)
<b><i>Sources of Finance</i></b>		
Capital Receipts	(8,205)	(16,829)
Government grants & other contributions	(36,192)	(32,918)
Use of Major Repairs Reserve	(19,597)	(19,056)
Direct Revenue Financing	(11,834)	(7,847)
Donated Asset	0	0
MRP	(9,303)	(9,907)
<b>Closing Capital Financing Requirement</b>	<b><u>508,710</u></b>	<b><u>506,313</u></b>
Increase in underlying need to borrow (unsupported by Government financial assistance)	21,260	7,510
MRP	(9,303)	(9,907)
<b>Increase / (Decrease) in Capital Financing Requirement</b>	<b><u>11,957</u></b>	<b><u>(2,397)</u></b>

### 31. Leases

#### a) Council as a Lessor

##### Operating Leases

The Council leases property and equipment under operating leases for the following purposes:

- The provision of community services, such as tourism services and community centres;
- Economic development purposes to provide suitable affordable accommodation for local businesses;
- Investment purposes.

The future minimum lease payments receivable under non-cancellable leases in future years and contingent rents for the year are:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>31 March</u> <u>2020</u> <u>£000</u>	<u>31 March</u> <u>2021</u> <u>£000</u>
Not later than one year	6,620	7,221
Later than one year and not later than five years	20,654	23,568
Later than five years	546,004	540,548
	<u>573,278</u>	<u>571,337</u>
Contingent Rents *	<u>1,352</u>	<u>275</u>

\*Significant reduction due to Covid-19 (West Quay largely closed)

The amounts in the above table include “market value” property ground rents which have all been treated as operating leases even where the period of the lease exceeds 150 years.

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

### 32. PFI and Similar Contracts

The Council is currently involved with five PFI and Similar Contracts, three of which require to be accounted for on Balance Sheet in accordance with our Accounting Policy (PFI schools, Hampshire Waste Management Contract, PFI Street Lighting) and two which are not (Northlands & Oak Lodge Nursing Homes run by BUPA Care Homes Limited).

#### a) On Balance Sheet

##### PFI Schools

A PFI project was approved by the Government to significantly improve the quality of the buildings in three of the City’s secondary schools and also to provide additional places in two of them. The works were procured under the PFI whereby a consortium of private sector companies, known as Pyramid Schools (Southampton) Ltd designed, built, financed and now operate the schools. The contract start date was 29 October 2001 and will terminate on 31 August 2031. The estimated capital value of these schemes is £37M.

The consortium provides building related services such as cleaning, care-taking and repairs, but teaching and curriculum related staff continue to be employed directly by the Council. The Council started to pay an annual fee to the consortium following the completion of the first school during the 2005/06 financial year. The fee, known as the ‘Unitary Charge,’ covers both the running costs of the school buildings and the cost of building the schools.

The cost of the project is being met partly through additional grant from Central Government and partly through existing budgets (either from budgets delegated to the schools concerned or controlled by the Council).

##### Hampshire Waste Contract

At the end of the 1980’s it became evident that Hampshire was facing a waste disposal crisis. Landfill space was rapidly running out, incinerators built in the 1970’s were not going to meet EU emission regulations and waste levels were continuing to rise.

In 1995 the Hampshire Waste Strategy was adopted which led to Project Integra, which is a unique partnership between the Council, Hampshire County Council, Portsmouth City Council, the 11 District Councils, and Veolia Environmental Services.

## NOTES TO THE CORE FINANCIAL STATEMENTS

In 1996 the Council (11.48% share) entered into a tri-partite arrangement with Hampshire County Council (77%) and Portsmouth City Council (11.52%), in respect of the provision of Waste Management Services from Veolia Environment Services. Although this arrangement was entered into pre PFI it requires to be accounted for as an on Balance Sheet PFI type arrangement under the Code.

Broadly, the services contract involved the building and running of three Energy Recovery Facilities and two Material Recycling Facilities and the provision of Waste Management Services within Hampshire for a 25 year period. Southampton and Portsmouth City Councils have worked with Hampshire County Council, as the lead authority, to calculate the fair value of the Assets built for the servicing of the Waste Management Contract. The Council has accounted for its share of the Assets (11.48%) on the basis of its share of the Annual Unitary Charge.

### **PFI Street Lighting**

From 1 April 2010, the Council entered into a 25 year PFI contract with Tay Valley Lighting to provide the city's street lighting services. Over the initial five years of the contract, the contractor replaced all life expired apparatus with new energy-efficient apparatus. This 'core investment programme' has a capital value of £26M and includes the replacement of 17,000 of the city's 28,000 street lights and associated apparatus. The contractor is also responsible for the operation and maintenance, to agreed performance standards, of all apparatus (new and existing) for the life of the contract. The Council pays a single fee to the contractor for these services (capital investment, operation and maintenance). Payment of this 'unitary charge' is funded partly through a PFI annuity grant received from Central Government and partly through existing Council budgets for street lighting.

### **b) Off Balance Sheet**

BUPA Care Homes (Northlands & Oak Lodge Nursing Homes)

The purpose of these Public Private Partnership (PPP) projects is to increase the number of nursing care beds within the city and in turn secure, under a block contract, the Council's accessibility to the beds. The private sector partner for this PPP is BUPA Care Homes Ltd. The Council has agreed to lease the land on which the nursing homes have been built to BUPA for nil consideration for the duration of 50 years.

BUPA manages both the property and service provision. The Council is not involved in direct service management or providing any staff. The Council has block contracts for 25 years (Northlands July 2005 – July 2030 and Oak Lodge Feb 2011 – Feb 2035), to purchase beds, (Northlands 72 of 101, and Oak Lodge 40 of 71) at the Nursing Homes annually.

Payment is made monthly to BUPA, based on the 'Unitary Charge', which is the price per bed per week.

A review of these arrangements indicates that they do not require to be accounted for as On Balance Sheet PFI schemes as the Council does not control the residual interest in the Assets (Nursing Homes) at the end of the 25 year service concession period.

The PFI and service concession arrangements that are included within Fixed Asset Balances are as follows. An adjustment has been made to the opening balances to reflect amendments to valuations made between the draft and final 2019/20 accounts, for which the PFI and Similar Contracts note was not updated.



## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
		<u>£000</u>	<u>£000</u>	
<b>Cost or Valuation</b>				
At 1 April 2020	45,273	12,309	25,819	83,401
Adjustment to Opening Balance	(1,906)			(1,906)
	43,367	12,309	25,819	81,495
Additions	2			2
Disposals				0
Revaluations	(2,058)			(2,058)
Impairments				0
<b>At 31 March 2021</b>	<b>41,311</b>	<b>12,309</b>	<b>25,819</b>	<b>79,439</b>
<b>Depreciation &amp; Impairment</b>				
At 1 April 2020	(1,906)	(1,774)	(5,602)	(9,282)
Adjustment to Opening Balance	1,906		34	1,940
	0	(1,774)	(5,568)	(7,342)
Depreciation Charge for the Year	(1,846)	(887)	(827)	(3,560)
Disposals				0
Revaluations	1,846			1,846
Impairments				0
<b>At 31 March 2021</b>	<b>0</b>	<b>(2,661)</b>	<b>(6,395)</b>	<b>(9,056)</b>
<b>Balance Sheet amount at 31 March 2021</b>	<b>41,311</b>	<b>9,648</b>	<b>19,424</b>	<b>70,383</b>
<b>Balance Sheet amount at 31 March 2020</b>	<b>43,367</b>	<b>10,535</b>	<b>20,217</b>	<b>74,119</b>

The Finance Creditor associated with the above schemes within the Balance Sheet is as follows:

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
		<u>£000</u>	<u>£000</u>	
Balance 1 April 2020	28,357	4,924	20,723	54,004
New Schemes in 2020/21	0	0	0	0
Repayments	(1,603)	(1,012)	(424)	(3,039)
<b>Balance 31 March 2021</b>	<b>26,754</b>	<b>3,912</b>	<b>20,299</b>	<b>50,965</b>
<b>Due within 1 Year</b>				
Balance 1 April 2020	1,603	1,012	424	3,039
Repayments	(1,603)	(1,012)	(424)	(3,039)
Due within 1 Year	1,839	1,107	500	3,446
<b>Balance 31 March 2021</b>	<b>1,839</b>	<b>1,107</b>	<b>500</b>	<b>3,446</b>
<b>Long Term Creditor Balance 31 March 2021</b>	<b>24,915</b>	<b>2,805</b>	<b>19,799</b>	<b>47,519</b>

The Future Obligations in respect of the three on Balance Sheet PFI / service concession arrangements are as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>PFI - Schools</u>				<u>Hampshire Waste</u>			<u>PFI - Street Lighting</u>			<u>Total</u>
	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Contingent Rents</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
within 1 year	1,839	2,274	1,844	1,094	1,107	704	6,289	500	2,418	1,306	19,375
within 2 to 5 years	8,115	7,607	8,372	5,897	2,805	959	23,552	2,979	8,931	5,586	74,803
within 6 to 10 years	15,163	4,910	10,805	10,910				6,968	8,421	7,868	65,045
within 11 to 15 years	1,637	139	1,280	864				9,852	2,845	7,089	23,706
<b>Balance 31 March 2021</b>	<b>26,754</b>	<b>14,930</b>	<b>22,301</b>	<b>18,765</b>	<b>3,912</b>	<b>1,663</b>	<b>29,841</b>	<b>20,299</b>	<b>22,615</b>	<b>21,849</b>	<b>182,929</b>

The future obligations in respect of the two Off Balance Sheet Public Private Partnerships (PPP) arrangements are as follows:

	<u>BUPA Care Homes</u>		
	<u>Northlands</u>	<u>Oak Lodge</u>	<u>Total</u>
	£000	£000	£000
within 1 year	1,633	1,685	3,318
within 2 to 5 years	6,532	6,741	13,273
within 6 to 10 years	4,360	8,426	12,786
within 11 to 15 years		6,488	6,488
<b>Balance 31 March 2021</b>	<b>12,525</b>	<b>23,340</b>	<b>35,865</b>

Payments for the year in respect of PFI and service concession arrangements were as follows:

	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Contingent Rents</u>	<u>Total</u>
	£000	£000	£000	£000	£000
PFI Schools	1,603	2,410	1,733	1,128	6,874
Hampshire Waste	1,012	887	6,068		7,967
PFI Street Lighting	424	2,470	1,272		4,166
BUPA Care Homes					
Northlands			2,430		2,430
Oak Lodge			1,546		1,546
<b>Totals</b>	<b>3,039</b>	<b>5,767</b>	<b>13,049</b>	<b>1,128</b>	<b>22,983</b>

### 33. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement and the authority contributes towards the costs by making

## NOTES TO THE CORE FINANCIAL STATEMENTS

contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. However, the scheme is unfunded and it is not possible to identify the Council's share of the underlying liabilities. The scheme is therefore accounted for as a defined contribution scheme and the Department for Education (DfE) uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is not able to identify its proportion of the total contributions into the Teacher's Pension Scheme with sufficient reliability for accounting purposes.

In 2020/21 the Council paid £11.0M to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.7% of pensionable pay (2019/20 £8.3M and 20.4%). The contributions due to be paid in the next financial year are estimated to be £11.3M.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 34.

### 34. Defined Benefit Pension Schemes

#### a) Participation in Pension Schemes

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

The Council participates in the Local Government Pension Scheme (LGPS) which is administered locally by Hampshire County Council - this is a funded defined benefit pension scheme, meaning that the Council and employees pay contributions into a fund calculated at a level intended to balance the pension liabilities with investment assets.

The Council also makes arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The Hampshire County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Hampshire County Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Deputy Chief Executive and Director of Corporate Resources of Hampshire County Council and JPM Investment Fund Managers.

The objective of the scheme is to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 15 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2022.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Transactions Relating to Post-employment Benefits

In 2020/21 the Council paid an employer's contribution of £29.2M (2019/20 £32.2M) into Hampshire County Council's Pension Fund. The employer's rate for 2020/21 was 18.2% of employees' pay (2019/20 16.1% plus a fixed payment).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2022 is £22.863M. The weighted average duration of the defined benefit obligation for the scheme members is 20.8 years.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement (MiRS). The table below shows the transactions that have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the MiRS during the year.

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
<b>Service cost comprising:</b>						
Current Service Cost	43,664	43,958	0	0	43,664	43,958
Past Service Cost	1,404	484	0	0	1,404	484
(Gain)/loss from settlements	0	0	0	0	0	0
Financing and Investment Income and Expenditure						
Expenditure:						
Net interest expense	9,836	10,322	812	741	10,648	11,063
<b>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>54,904</b>	<b>54,764</b>	<b>812</b>	<b>741</b>	<b>55,716</b>	<b>55,505</b>
<b>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>						
<b>Remeasurement of the net defined benefit liability comprising:</b>						
Return on plan assets (excluding the amount included in the net interest expense)	49,640	(193,418)	0	0	49,640	(193,418)
Actuarial gains and losses arising on changes in demographic assumptions	(32,897)	0	(716)	0	(33,613)	0
Actuarial gains and losses arising on changes in financial assumptions	(35,476)	268,851	(358)	2,673	(35,834)	271,524
Other experience and actuarial adjustments	27,827	(15,858)	950	(468)	28,777	(16,326)
<b>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>9,094</b>	<b>59,575</b>	<b>(124)</b>	<b>2,205</b>	<b>8,970</b>	<b>61,780</b>
<b>Movement in Reserves Statement</b>						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(54,904)	(54,764)	(812)	(741)	(55,716)	(55,505)
Actual amount charged against the General Fund Balance for pensions in the year						
<b>Employers Contributions payable to scheme Retirement benefits payable to pensioners</b>	<b>29,860</b>	<b>20,470</b>	<b>2,320</b>	<b>2,242</b>	<b>29,860</b>	<b>20,470</b>

### c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2021 are shown in the following table. The liabilities show the underlying commitments that the Council has in the

## NOTES TO THE CORE FINANCIAL STATEMENTS

long-run to pay retirement benefits. The total liability of £586.7M (2019/20 £492.1M) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary. The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension		Discretionary Benefits		Total	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000	£000	£000
Present value of the defined benefit obligation	1,309,231	1,615,353	33,338	34,042	1,342,569	1,649,395
Fair value of plan assets	(850,423)	(1,062,676)	0	0	(850,423)	(1,062,676)
Sub-total	458,808	552,677	33,338	34,042	492,146	586,719
Other movements in the liability (asset)	0	0	0	0	0	0
<b>Net liability arising from defined benefit obligation</b>	<b>458,808</b>	<b>552,677</b>	<b>33,338</b>	<b>34,042</b>	<b>492,146</b>	<b>586,719</b>

### d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2019. This has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 31 March 2021.

Movements in liabilities and assets for the year are shown in the following tables:

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits		Total Funded and Unfunded Liabilities	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000	£000	£000
Opening balance at 1 April	1,299,630	1,309,231	34,970	33,338	1,334,600	1,342,569
Current service cost	43,664	43,958	0	0	43,664	43,958
Interest cost	30,887	29,878	812	741	31,699	30,619
Contributions from scheme participants	7,407	8,012	0	0	7,407	8,012
Remeasurement (gains) and losses:						
Actuarial gains/losses arising from changes in demographic assumptions	(32,897)	0	(716)	0	(33,613)	0
Actuarial gains/losses arising from changes in financial assumptions	(35,476)	268,851	(358)	2,673	(35,834)	271,524
Other	27,827	(15,858)	950	(468)	28,777	(16,326)
Past service cost	1,404	484	0	0	1,404	484
Benefits paid	(33,215)	(29,203)	(2,320)	(2,242)	(35,535)	(31,445)
Liabilities extinguished on settlements (where relevant)	0	0	0	0	0	0
<b>Closing balance at 31 March</b>	<b>1,309,231</b>	<b>1,615,353</b>	<b>33,338</b>	<b>34,042</b>	<b>1,342,569</b>	<b>1,649,395</b>

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000	£000	£000
Opening fair value of scheme assets	874,960	850,423	0	0	874,960	850,423
Interest income	21,051	19,556	0	0	21,051	19,556
Remeasurement gain/(loss)	(49,640)	193,418	0	0	(49,640)	193,418
Contributions from employer	29,860	20,470	2,320	2,242	32,180	22,712
Contributions from employees into the scheme	7,407	8,012	0	0	7,407	8,012
Benefits paid	(33,215)	(29,203)	(2,320)	(2,242)	(35,535)	(31,445)
Other	0	0	0	0	0	0
<b>Closing fair value of scheme assets</b>	<b>850,423</b>	<b>1,062,676</b>	<b>0</b>	<b>0</b>	<b>850,423</b>	<b>1,062,676</b>

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### e) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Aon Solutions, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2019. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for IAS19 purposes were:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	23.0	23.1	23.0	23.1
Women	25.5	25.5	25.5	25.5
Longevity at 65 for future pensioners:				
Men	24.7	24.8	-	-
Women	27.2	27.3	-	-
CPI inflation	2.0%	2.7%	2.0%	2.7%
Rate of increase in salaries	3.0%	3.7%	-	-
Rate of increase in pensions	2.0%	2.7%	2.0%	2.7%
Rate for discounting scheme liabilities	2.3%	2.1%	2.3%	2.1%

### f) Pension Scheme Assets

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below.

	2019/20		2019/20	2020/21		2020/21
	%	%		%	%	
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	44.10	8.60	52.70	49.40	7.60	57.00
Property	0.80	6.50	7.30	0.80	5.30	6.10
Government Bonds	21.80	-	21.80	17.30	-	17.30
Corporate Bonds	-	-	-	-	-	-
Cash	2.00	-	2.00	1.40	-	1.40
Other	14.10	2.10	16.20	15.90	2.30	18.20
<b>Total assets</b>	<b>82.80</b>	<b>17.20</b>	<b>100.00</b>	<b>84.80</b>	<b>15.20</b>	<b>100.00</b>

### g) Sensitivity analysis

The effect of an increase or decrease in the assumptions used to calculate the net pension liability is set out below.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption	Decrease in Assumption
	£000	£000
Longevity (increase or decrease in 1 year)	58,153	(56,537)
Rate of increase in salaries (increase or decrease by 1%)	3,231	(3,231)
Rate of increase in pensions (increase or decrease by 1%)	30,692	(30,692)
Rates for discounting scheme liabilities (increase or decrease by 1%)	(33,922)	33,922

## NOTES TO THE CORE FINANCIAL STATEMENTS

Further information can be found in the actuary's valuation report and Hampshire County Council's Pension Fund Annual Report, which are available from the Deputy Chief Executive and Director of Corporate Resources, The Castle, Winchester, Hampshire, SO23 8UB.

### 35. Contingent Liabilities/ Assets

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

#### Municipal Mutual Insurance – Scheme of Arrangement

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

An initial levy of 15% of previously paid claims, less the first £0.050M, was collected by MMI from scheme members in February 2014. In April 2016, following a further review by the scheme administrator, the levy was increased by a further 10% to 25%. To date total sum of £0.347M has been paid to MMI in respect of the levy payments made by Southampton City Council. Under the terms of the SoA, the Council also has to meet 25% of any new insurance claim settlements made by MMI. An annual review of the levy rate is required under the terms of the SoA and this could lead to the rate being further amended in future.

An earmarked Insurance reserve, with a balance of £0.7M (2019/20 £0.35M), is currently available to mitigate the financial pressure created by the MMI levy and any other uninsured losses, which might occur in the future. This figure, which is intended to be both prudent and realistic, is subject to periodic review. The increase in the reserve reflects a recommendation, following an external review of the self-insurance fund, that the MMI reserve increase from 50% to 75% of the amount subject to levy (less the 25% that has been paid already).

As at 31 March 2021, the Council's outstanding potential liability under the SoA stood at £1.390M (2019/20 £1.390M), less the £0.347M payment already made under the scheme.

### 36. Interest in Companies

The Council reviews annually any interests in Companies and Other Entities for any financial relationships which under the Code's classification would require the Council to produce Group Accounts. In 2020/21 there were no material transactions that required the production of group accounts but it should be noted that the Council does have the following relationship:

#### PSP Southampton LLP

In 2014 the Council entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years.

The aims and aspirations of the Partnership are as follows:

- Overall to be a facilitating organisation and development partner for the Council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the Council's operation properties and investment properties;
- To undertake specific regeneration opportunities by entering into land transactions that achieve the success Criteria in a way that maximises the commercial benefits of the Sites;
- To act as a facilitating organisation giving the Council choice as to how it pursues its asset management

## NOTES TO THE CORE FINANCIAL STATEMENTS

plans; and

- To assist in achieving broader social, economic and environmental outcomes.
- A partnership sharing agreement is drawn up for each specific opportunity that developed through the LLP and will be dependent on the nature of the activity to be undertaken.

A review of PSP indicates a joint venture, which would require the arrangement to be accounted for as an associate. The initial investment in the partnership was £1 and the Council's share of the estimated net assets of the company at 31 March 2021 was £0.008M (2019/20 £0.453M), with the Council receiving £0.640M in distributed profits in 2020/21.

Having given due consideration to the qualitative and quantitative aspects of materiality, the Council concludes that the preparation of group accounts is not material to the "true and fair view" of the financial position, financial performance and the cash flows of the authority and to the understanding of the users.

### 37. Capital and Revenue Grants & Contributions, Receipts in Advance

- a) Capital Grants and Contributions with outstanding conditions are credited to Capital Grants and Contributions Receipts in Advance in accordance with the requirements of the Code.

<u>2019/20</u>		<u>2020/21</u>
<b>£000</b>		<b>£000</b>
(29,245)	Balance Brought Forward	(12,418)
(7,106)	Amounts Received in Year	(20,728)
23,933	Amounts Applied to Finance Capital in year	6,848
<u><b>(12,418)</b></u>	<b>Balance Carried forward</b>	<u><b>(26,298)</b></u>

- b) Capital Grants and Contributions have been credited to the Comprehensive Income and Expenditure Statement as follows:



## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u> £000		<u>2020/21</u> £000	£000
	<b>Grants</b>		
	Department for Education		
(5)	Framework Academies	0	
(14,043)	Basic Need Grant	0	
(4,271)	School Condition Allocation	(6,306)	
(1,416)	Schools Devolved Formula Grant	(470)	
(1,263)	Special Provision Allocation	(409)	
(3,605)	Capital Maintenance Grant	0	
0	Priority School Building Programme	(52)	
(2,389)	Other	(71)	
<u>(26,992)</u>			(7,308)
(4,515)	Ministry of Housing, Communities and Local Government		(6,043)
(21)	Heritage Lottery Fund		(9)
(18,360)	Department for Transport		(15,631)
(78)	Department for Culture, Media and Sport		(10)
<u>(221)</u>	Other		<u>(110)</u>
<b>(50,187)</b>			<b>(29,111)</b>
<b>(7,407)</b>	<b>Contributions</b>		<b>(1,926)</b>
<u><b>(57,594)</b></u>	<b>Total</b>		<u><b>(31,037)</b></u>
<b>(54,495)</b>	<b>Credited to Capital Grants and Contributions CIES</b>		<b>(25,228)</b>
<b>(3,099)</b>	<b>Credited to Cost of Services</b>		<b>(5,809)</b>
<u><b>(57,594)</b></u>	<b>Total</b>		<u><b>(31,037)</b></u>

- c) The following table shows revenue government grants that have been credited to the Comprehensive Income and Expenditure Statement (CIES) and grants received that have been excluded from the CIES. Grants in respect of COVID-19 are shown separately:

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	<b>General Government Grants</b>	
	Revenue Support Grant	(10,964)
(1,895)	Social Care Support Grant	(6,696)
(7,335)	Section 31 Business Rates Grants	(4,915)
10,123	Business Rates Retention Tariff/Top-Up	(4,628)
(4,768)	MHCLG - New Homes Bonus Scheme	(4,098)
(1,171)	Housing Benefit and Council Tax Admin Grant	(1,181)
(1,361)	Other Grants	(1,521)
<u>(6,407)</u>		<u>(34,003)</u>
	<u>COVID-19</u>	
	Section 31 Business Rates Grants	(25,586)
(7,400)	COVID-19 Local Authority Support	(15,532)
	Compensation for Loss of Fees & Charges	(7,374)
	Local Tax Income Guarantee Scheme	(1,127)
	Other Grants	(354)
<u>(7,400)</u>		<u>(49,973)</u>
<u><b>(13,807)</b></u>		<u><b>(83,976)</b></u>
	<b>Credited to Services</b>	
(126,277)	Dedicated Schools Grant (DSG)	(135,442)
(70,672)	Housing Benefit Grant	(69,916)
(16,520)	Public Health Grant	(17,242)
(9,281)	Additional and Improved Better Care Fund	(10,390)
(9,011)	Pupil Premium	(9,573)
(5,859)	Private Finance Initiative (PFI)	(5,859)
(2,978)	Teachers Pay and Pension Grants	(5,141)
	Homelessness and Rough Sleeping Grants	(1,534)
(1,544)	Universal Infant Free School Meals	(1,533)
(1,109)	Adult Social Care Winter Pressures Grant	
(10,356)	Other Grants	(9,478)
<u>(253,607)</u>		<u>(266,108)</u>
	<u>COVID-19</u>	
	Contain Outbreak Management Fund	(5,916)
	Council Tax Hardship Fund	(2,584)
	Test and Trace Service Grant	(1,571)
	Local Authority Discretionary Grant Funding to Businesses	(1,564)
	Pupil Premium Catch Up Funding	(1,228)
	Adult Social Care Infection Control Discretionary Grants	(951)
	Other Grants	(4,767)
<u>0</u>		<u>(18,581)</u>
<u><b>(253,607)</b></u>		<u><b>(284,689)</b></u>
	<b>Not included in the Comprehensive Income and Expenditure Statement</b>	
	<u>COVID-19</u>	
	Small Business and Retail, Hospitality and Leisure Grants	(37,550)
	Local Restrictions Support Grants to Businesses	(10,638)
	Closed Business Lockdown Grants	(7,251)
	Adult Social Care Infection Control Grants	(3,205)
	Other Grants	(970)
<u>0</u>		<u>(59,614)</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

The £59.6M of grants not included in the Comprehensive Income and Expenditure Statement are where the Council has acted as an agent of central government in disbursing funding to businesses, social care providers and individuals. In addition, there was £17.6M of business support grants within the Creditors balance as at 31 March 2021 that had been received but not disbursed to businesses as at that date (see Note 20 Creditors).

As part of the 75% Business Rates Retention pilot in 2019/20 the Council received no Revenue Support Grant and incurred a tariff charge of £10.1M to offset the additional business rates income retained.

### 38. Deferred Liabilities

This balance relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1 April 1997 and the Magistrates Courts, which is being repaid over 50 years at £0.4M per annum.

<u>31 March</u> <u>2020</u> £000		<u>31 March</u> <u>2021</u> £000
14,190	Balance Brought Forward	13,826
(364)	Principal written down	(364)
<u>13,826</u>		<u>13,462</u>

### 39. Pooled Budgets

Pooled budget arrangements are made in accordance with Section 75 (S75) of the National Health Services Act 2006 which allows partnership arrangements between National Health Service (NHS) bodies, Local Authorities (LA) and other agencies in order to improve and co-ordinate services. These arrangements are accounted for as joint operations.

#### Better Care Southampton

Southampton City Council (SCC) has entered into pooled budget arrangements with NHS Southampton City Clinical Commissioning Group (CCG) with the aim of focussing services and activities for client groups, allowing the organisations to act in a more cohesive way. The governance and operation of the partnership arrangements are overseen by the Commissioning Partnership Board.

Together the City Council and CCG have identified service areas where closer integrated working and pooled budgets would lead to benefits for the population. These are:

**Locality Based Hospital Unit (LBHU) pooled budget:** hosted by the City Council; to commission residential, domiciliary care and continuing care services for former residents of the LBHU in Southampton.

**Reablement & Rehabilitation (R&R) pooled budget:** hosted by the CCG; services commissioned under this scheme include CCG contracts with NHS Providers, Independent Sector Providers and local authority in-house provision (some of which were previously S256 agreements).

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>					<u>2020/21</u>			
<u>LBHU</u>		<u>R&amp;R</u>			<u>LBHU</u>		<u>R&amp;R</u>	
£000	%	£000	%		£000	%	£000	%
				<b>Better Care Fund</b>				
				<b>Funding - Contributions / Grants</b>				
0		0		Brought Forward	0		0	
(1,274)	49%	(5,159)	31%	Southampton City Council	(1,187)	47%	(4,896)	25%
(1,326)	51%	(11,749)	69%	Southampton Clinical Commissioning Group	(1,336)	53%	(14,980)	75%
<b>(2,600)</b>		<b>(16,908)</b>			<b>(2,523)</b>		<b>(19,876)</b>	
2,600		16,908		<b>Expenditure</b>	2,523		19,876	
<b>0</b>		<b>0</b>		<b>Carried Forward</b>	<b>0</b>		<b>0</b>	

### 40. Trust and Other Funds

The Council acts as trustee for several legacies left by inhabitants of the City and also as residual trustee for the Wessex Slaughterhouse Board. The funds are not owned by the Council and have not been included in the Council's Balance Sheet. The funds are used in accordance with the aims of the particular charity or trust.

	<u>Income</u>	<u>Expenditure</u>	<u>Assets</u>	<u>Purpose</u>
	£000	£000	£000	
Aldridge Bequest	(3)	0	(235)	Personal enrichment experiences for disadvantaged pupils
Chipperfield Trust	0	0	(169)	Works of art for Southampton City Art Gallery
Miss Orris Bequest	0	2	(44)	Works of art
LC Smith Bequest	0	0	(35)	Merchants Navy's Memorial maintenance help in Holyrood Church
<b>Minor Trust Funds consisting of:</b>				
Ida Bany Bequest	0	0	(13)	Books about America
De Gee	0	0	(1)	Children of the former Hollybrook Children's Home annual treat
Dora Linton	0	0	(3)	Merchants Navy's Memorial maintenance help in Holyrood Church
George Knee Fund	0	0	(4)	Bitterne Park School special annual prizes
Southampton Archives Bequest	(5)	0	(5)	Preserve historical records
<b>Trust Funds Total</b>	<b>(8)</b>	<b>2</b>	<b>(509)</b>	
Wessex Slaughterhouse Board	0	0	(93)	Pensions to former employees
<b>Total</b>	<b>(8)</b>	<b>2</b>	<b>(602)</b>	

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the HRA. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to, or from, the Council Tax payer and between the HRA and General Fund.

Transactions relating to the HRA have been separated into two statements:

- Housing Revenue Account Income and Expenditure Statement
- Statement of Movement on the Housing Revenue Account

### HRA Income and Expenditure Statement

<u>2019/20</u>		<u>2020/21</u>
£000	<b>Expenditure</b>	Notes      £000
13,853	Repairs and maintenance	17,464
25,260	Supervision and management	27,336
4,774	Rents, rates, taxes and other charges	4,491
37,980	Depreciation, impairment and revaluation (gains) of non-current assets	(20,468)
74	Debt management costs	81
1,312	Movement in the allowance for bad debts	1      923
<b>83,253</b>	<b>Total Expenditure</b>	<b>29,827</b>
	<b>Income</b>	
(69,497)	Dwellings rent	(70,482)
(1,250)	Non-dwelling rents	(1,212)
(7,392)	Charges for services & facilities	(7,855)
(883)	Contributions towards expenditure	(871)
<b>(79,022)</b>	<b>Total Income</b>	<b>(80,420)</b>
<b>4,231</b>	<b>Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>	<b>(50,593)</b>
518	HRA services' share of Corporate and Democratic Core	518
<b>4,749</b>	<b>Net Expenditure/ (Income) for HRA Services</b>	<b>(50,075)</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>	
(3,830)	(Gain) or loss on the sale of HRA non-current assets	(1,640)
(28)	Capital Receipts not matched by Disposal of Assets	(58)
(456)	Investment Property Revaluation Movements	(57)
5,189	Interest payable and similar charges	4,779
(22)	Interest and investment income	0
402	Net interest on the net defined benefit liability	1,991
(542)	Capital grants and contributions receivable	(514)
<b>5,462</b>	<b>(Surplus) or Deficit for the Year on HRA Services</b>	<b>(45,574)</b>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### Statement of Movement on the Housing Revenue Account

<u>2019/20</u> £000		<u>2020/21</u> £000	£000
(2,000)	Opening Balance		(2,000)
	<b>Movement in Year</b>		
5,462	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(45,574)	
(5,462)	Adjustments between accounting basis and funding basis under statute	45,574	
<u>0</u>	Transfer to / (from) reserves		<u>0</u>
<u>(2,000)</u>	<b>Closing HRA Balance</b>		<u>(2,000)</u>

### Note to the Statement of Movement on the Housing Revenue Account

<u>2019/20</u> £000		<u>2020/21</u> £000
	<b>Analysis of adjustments between accounting basis and funding basis under statute</b>	
(37,980)	Depreciation, impairment and revaluation gains or (losses) of non-current assets	20,468
3,858	Gain or (loss) on the sale of HRA non-current assets	1,698
456	Impairment and revaluation of investment properties	57
(890)	HRA share of contribution to or from the pension reserve	(5,903)
19,597	Transfer to Major Repairs Reserve	21,553
542	Capital grants and contributions applied	514
8,955	Capital expenditure funded by the HRA	7,187
<u>(5,462)</u>	<b>Net Adjustment</b>	<u>45,574</u>

## 1. Council House Rents

At 31 March 2021, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 14.48% (31 March 2020 11.47%). The total arrears were £9.889M (31 March 2020 £8.131M). Rents written off during the year amounted to £0.377M (2019/20 £0.208M). The amount set aside for doubtful debts was £5.520M (31 March 2020 £4.980M). The arrears owed by tenants have increased by £1.76M (21.6%) since 2019/20.

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### 2. Housing Stock

As at the 31 March 2021, the Council housing stock was made up of the following types of property:

<b>Number of Properties Held</b>	
<b>31 March 2020</b>	<b>31 March 2021</b>
4,900 Houses	4,872
10,927 Flats	10,959
16 Bungalows	16
<b>15,843</b>	<b>15,847</b>

The Balance Sheet value of HRA assets was as follows:

<b>Balance Sheet Value of HRA Assets</b>	
<b>2019/20 £000</b>	<b>2020/21 £000</b>
<b>Property Plant &amp; Equipment</b>	
634,904 Dwellings	681,654
8,586 Other Operational Property	8,347
38,464 Assets Under Construction	43,109
<b>681,954</b>	<b>733,110</b>
<b>Other Property</b>	
5,708 Investment Property	5,765
0 Intangibles	617
424 Surplus Assets	423
<b>6,132</b>	<b>6,805</b>
<b>688,086</b>	<b>739,915</b>

The vacant possession value of Council Dwellings at 1 April 2020 was £1,958M (£1,930M as at 1 April 2019) which is the Council's estimate of the total sum it would receive if the assets were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market and the Balance Sheet is therefore lower than the Vacant Possession Valuation.

The difference between the two shows the economic cost to the Government of providing Council housing at less than open market value. The value is based on stock as at the 31 March 2021.

### 3. Depreciation and Impairment of Assets

Depreciation charges of land, houses and other property within the HRA are shown in the table below. In 2019/20 there was £1.7M of impairment charges on the dwelling stock during the year which related to the properties purchased at market value and then impaired down to the basis of rents receivable on existing tenancies. There were no impairments in 2020/21.

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<u>2019/20</u> £000	Depreciation	<u>2020/21</u> £000
19,539	Balance at 1 April	19,597
(19,539)	Depreciation written off in year	(19,597)
<u>19,597</u>	Depreciation during year	<u>21,553</u>
<u><b>19,597</b></u>	<b>Balance as at 31 March</b>	<u><b>21,553</b></u>

### 4. Capital Expenditure

Capital expenditure and how it was financed is analysed in the following tables:

<u>Capital Spending</u>		
<u>2019/20</u> £000		<u>2020/21</u> £000
25,389	Housing Stock	18,528
15,659	Housing Stock Under Construction	14,818
0	Intangible assets	617
<u><b>41,048</b></u>	<b>Total Capital Expenditure</b>	<u><b>33,963</b></u>
<u>Capital Expenditure Source of Finance</u>		
£000		£000
7,955	Capital Receipts	7,206
188	Grants	0
19,597	Transfer from Major Repairs Reserves	19,056
354	Contributions	514
8,955	Direct Revenue Funding	7,187
<u>3,999</u>	Unsupported Borrowing	<u>0</u>
<u><b>41,048</b></u>	<b>Total Financing</b>	<u><b>33,963</b></u>

### 5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts for the year. In 2005/06 the Government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the Government then distributes to local authorities and housing associations on the basis of need.

In 2012/13, under the Government's 'Reinvigorating the Right to Buy' initiative, the rules changed to allow local authorities to retain receipts that exceed a predetermined set level.

Any additional receipts can be used to fund up to 30% of new build affordable housing projects to replace stock on a one for one basis. Receipts are still subject to updated pooling arrangements that return a predetermined proportion to the Government. In 2020/21 the Council received £1.52M (2019/20 £4.95M) from right to buy sales that can be utilised on new build affordable housing projects.



## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<u>2019/20</u>	<b>Sale of Assets</b>	<u>2020/21</u>
<b>£000</b>		<b>£000</b>
10,356	Council Housing	4,368
28	Land, Buildings & Equipment	58
<u><b>10,384</b></u>		<u><b>4,426</b></u>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### The Collection Fund

This account reflects the statutory requirements for the Council as a billing authority to maintain a separate Collection Fund. It shows the transactions of the billing authority in relation to non-domestic (business) rates and council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund Balance Sheet is consolidated within the accounts.

<b><u>Income and Expenditure for the Year Ended 31 March 2021</u></b>			
<b><u>2019/20</u></b>		<b><u>2020/21</u></b>	
<b>£000</b>	<b>Council Tax</b>	<b>Notes</b>	<b>£000</b>
	<b>Income</b>		
(119,561)	Income due from Council Tax Payers		(118,825)
(199)	Transfers (to)/ from the General Fund		
(7)	- Hardship Relief		(2,756)
(206)	- Transitional Relief		7
<b>(119,767)</b>			<b>(2,749)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax		
2,051	- Southampton City Council		(251)
244	- Hampshire Police Authority		(33)
90	- Hampshire Fire & Rescue Authority		(11)
<b>2,385</b>			<b>(295)</b>
<b>(117,382)</b>	<b>Total Council Tax Income</b>		<b>(121,869)</b>
	<b>Expenditure</b>		
	Precepts		
99,746	- Southampton City Council Precept		102,535
13,087	- Hampshire Police & Crime Commissioner Precept		13,844
4,398	- Hampshire Fire & Rescue Authority Precept		4,521
<b>117,231</b>		2	<b>120,900</b>
	Impairment of debts		
1,275	- Write offs		1,287
2,984	- Allowance for impairment		(1,770)
<b>4,259</b>			<b>(483)</b>
<b>121,490</b>	<b>Total Council Tax Expenditure</b>		<b>120,417</b>
<b>4,108</b>	<b>Council Tax - Deficit / (Surplus) for the Year</b>	4	<b>(1,452)</b>
(1,479)	Council Tax - Deficit / (Surplus) Brought Forward	4	2,629
<b>2,629</b>	<b>Council Tax Deficit / (Surplus) Carried Forward</b>	4	<b>1,177</b>
	<b>Business Rates</b>		
	<b>Income</b>		
<b>(111,401)</b>	Income Collectable from Business Ratepayers	3	<b>(57,094)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus NDR		
2,014	- Southampton City Council		940
1,053	- Central Government - MHCLG		(441)
31	- Hampshire Fire & Rescue Service		5
<b>3,098</b>			<b>504</b>
<b>(108,303)</b>	<b>Total Business Rates Income</b>		<b>(56,590)</b>
	<b>Expenditure</b>		
1,942	- Payment to MHCLG - Transitional Arrangements		1,554
27,195	- Payment to MHCLG - Business Rate Retention		52,917
80,497	- SCC Business Rates Retention		51,858
1,088	- HFRA Precept		1,058
0	- Interest on Overpayments		0
310	- Costs of Collection		308
<b>111,032</b>			<b>107,695</b>
	Impairment of debts/appeals		
1,484	- Write offs		111
(94)	- Allowance for impairment		(3)
562	- Appeals provision		151
<b>1,952</b>			<b>259</b>
<b>112,984</b>	<b>Total Business Rates Expenditure</b>		<b>107,954</b>
<b>4,681</b>	<b>Business Rates (Surplus) / Deficit For the Year</b>	4	<b>51,364</b>
(5,364)	Business Rates - Deficit / (Surplus) Brought Forward	4	(683)
<b>(683)</b>	<b>Business Rates Deficit / (Surplus) Carried Forward</b>	4	<b>50,681</b>
<b>1,946</b>	<b>Total Collection Fund (Surplus) / Deficit</b>	4	<b>51,858</b>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### 1. Introduction

The Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and Non-domestic Rates (NDR) and its distribution to local Government bodies and the Government.

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and NDR. The administration costs associated with the collection processes are charged to the General Fund.

Collection Fund surpluses and deficits declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies, normally in the subsequent financial year. To reduce the financial impact in 2021/22 of exceptional losses arising in 2020/21 due to the COVID-19 pandemic, the government made regulations to require the 2020/21 in-year deficit as estimated in January 2021 to be spread over 3 years. Prior year elements remain to be met in full in 2021/22. For Southampton, Council Tax precepting bodies are the Police and Crime Commissioner for Hampshire and the Hampshire Fire & Rescue Authority (Hampshire and Isle of Wight Fire & Rescue Authority from 1 April 2021).

The Retained Business Rates Scheme allows the Council to retain a proportion of the total NDR received. For 2020/21 the Council was part of the standard 50% Business Rates Retention Scheme. The Council share of NDR rates was 49% with the remainder paid to Central Government (50%) and Hampshire Fire & Rescue Authority (1%) (for 2019/20 the Council was in a 75% Business Rates Retention pilot: Southampton City Council 74%, Central Government 25% and HFRA 1%). NDR surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies, normally in the subsequent financial year in their respective proportions. As with Council Tax, the government made regulations to require the 2020/21 in-year deficit estimated in January 2021 (excluding the element relating to additional reliefs relating to the pandemic being funded from S31 Business Rates Grant) to be spread over 3 years.

### 2. Council Tax Base

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 9 valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council in the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of Band D dwellings).

The Council Tax base for 2020/21 was 67,215 (2019/20 66,693). The tax base for 2020/21 was calculated as follows:

<b>Council Tax Base</b>			
	<b><u>Net Chargeable Dwellings</u></b>	<b><u>Relevant Proportion</u></b>	<b><u>Band D Equivalents</u></b>
Band A Disabled	36.0	5/9	20.0
Band A	22,017.7	6/9	14,678.5
Band B	27,428.0	7/9	21,332.9
Band C	19,336.5	8/9	17,188.0
Band D	8,172.7	9/9	8,172.7
Band E	2,730.8	11/9	3,337.6
Band F	1,271.7	13/9	1,836.9
Band G	385.0	15/9	641.7
Band H	3.5	18/9	7.0
	<b><u>81,381.9</u></b>		<b><u>67,215.3</u></b>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Taking the total Band D equivalents of 67,215 (2019/20 66,693) and multiplying this by the standard Council Tax of £1,846.70 (2019/20 £1,804.69) gives a total estimated income from taxpayers of £124.1M (2019/20 £120.4M). The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted. Additional hardship discounts were awarded in 2020/21 to eligible working age council tax payers under the government's Council Tax Hardship Fund scheme.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which was 97.4%, giving a net Council Tax Base of 65,468. Multiplying this by the standard Council Tax of £1,846.70 gives the total precepts on the Collection Fund of £120.9M (64,959 times by £1,804.69 - £117.2M 2019/20).

### 3. Non-Domestic Rates (NDR)

The Business Rates Retention Scheme was introduced from 1 April 2013 whereby Business Rates collected by billing authorities are shared 50:50 between local and central government. Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities were estimated to receive their baseline funding amount. Tariffs due from authorities, payable to Central Government, are used to finance top-ups to those authorities who were not estimated to achieve their targeted baseline funding. In addition, a 'safety net' figure is calculated at 92.5% of the baseline funding amount which ensures that authorities are protected to this level of Business Rate income.

The Council in 2020/21 estimated NDR income of approximately £105.8M (2019/20 £108.8M), £51.9M (2019/20 £80.5M) retained by the Council, £1.1M (2019/20 £1.1M) payable to Hampshire Fire & Rescue Authority) and £52.9M payable to Central Government (2019/20 £27.2M). This estimate was made prior to the government announcing significant additional rate reliefs to support particular business sectors during the pandemic. For Southampton £50.2M of these additional reliefs were awarded in 2020/21. The Rateable Value on 31 March 2021 was £266.3M (2019/20 £271.3M) and the Business Rate Multiplier for the year 49.9p (2019/20 49.1p) in the £, giving gross rates before reliefs of £132.9M (2019/20 £133.2M).

### 4. Collection Fund Balance

The total Collection Fund deficit carried forward for the year is £51.9M (2019/20 £1.9M surplus). An analysis of the balance showing the in-year (surplus)/deficit and cumulative position is provided in the following table:

	<u>In Year</u>			<u>Cumulative</u>		
	<u>Council Tax</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Business Rates</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Total</u>	<u>Council Tax</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Business Rates</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Central Government		24,989	24,989		25,385	25,385
Southampton City Council	(1,231)	25,861	24,630	1,000	24,789	25,789
Hampshire Fire & Rescue Service	(169)	514	345	131	507	638
Hampshire Police Authority	(52)		(52)	46		46
<b>Balance as at 31 March</b>	<b>(1,452)</b>	<b>51,364</b>	<b>49,912</b>	<b>1,177</b>	<b>50,681</b>	<b>51,858</b>

## GLOSSARY

### 1. Accruals

The concept that income and expenditure is recognised as it is earned or incurred; not as money is received or paid.

### 2. Budget

The Council's aims and policies set out in financial terms against which performance is monitored. Both revenue and capital budgets are prepared.

### 3. Capital Adjustment Account (CAA)

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

### 4. Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, which enhances and not merely maintains the value or increases the life of an existing fixed asset.

### 5. Capital Receipts

The proceeds from the sale of capital assets.

### 6. Community Assets

Assets that the Council intends to hold in perpetuity and that may have restrictions on their disposal. Examples of community assets are parks, open spaces, and allotments.

### 7. Contingency

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

### 8. Council Tax

A local tax levied by a local authority on its citizens.

### 9. Creditor

Money owed by the Council to others for goods or services that have been supplied in the accounting period but not paid for.

### 10. Debtor

Money owed to the Council for goods or services we have supplied to others that they have received but have not paid for by the end of the accounting period.

### 11. Depreciation

The measure of wearing out, consumption, or other reduction in the useful economic life of a fixed asset, arising from use, passage of time, obsolescence or other changes.

### 12. Effective Interest Rate (EIR)

The effective interest rate is the true rate of interest earned. It could also be referred to as the market interest rate, the yield to maturity, the discount rate, the internal rate of return, the annual percentage rate (APR), and the targeted or required interest rate.

### 13. Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## GLOSSARY

### **14. Financial Assets**

A right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

### **15. Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

### **16. Financial Instrument**

Any contract that gives rise to a financial asset of one entity and a financial liability, or equity instrument, of another entity.

### **17. Financial Liability**

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

### **18. Financial Reporting Standard (FRS)**

Statements issued by the Accounting Standards Board (ASB) specifying the treatment and disclosure of certain events and transactions in the preparation and publication of accounting statements.

### **19. General Fund**

The division of the Council's accounts covering services paid for by the precept on the Collection Fund for council tax and its share of business rates.

### **20. Government Grants**

Government assistance whether in the form of cash or transfers of assets in return for compliance with certain conditions relating to the activities of the Council.

### **21. Heritage Assets**

Heritage Assets are those assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities.

### **22. Housing Revenue Account**

The division of the Council's accounts that covers services relating to the provision of Council housing.

### **23. Impairment**

A reduction in the value of a fixed asset, as shown in the balance sheet, to reflect its true value.

### **24. Infrastructure Assets**

Examples of infrastructure assets are highways, bridges and footpaths.

### **25. International Financial Reporting Standards (IFRS's)**

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS's are issued by the International Accounting Standards Board (IASB).

## GLOSSARY

### **26. Long Term Investments**

An investment that is intended to be held for use on a continuing basis in the activities of the Council.

### **27. Materiality**

This is one of the main accounting concepts. It ensures that the Financial Statements include all the transactions that, if omitted, misstated or obscured, would lead to a significant distortion of the financial position at the end of the accounting period.

### **28. 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.

### **29. Money Market Funds**

Pooled funds which invest in a range of short term assets (MMF) providing high credit quality and high liquidity.

### **30. Non Domestic Rates Retention**

Business rate levied on companies, firms etc, collected by local authorities and paid in specified shares to Central Government, Southampton City Council and Hampshire Fire & Rescue Authority.

### **31. Net Book Value**

The amount at which Property Plant and Equipment are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

### **32. Net Expenditure**

Total expenditure for a service less directly related income.

### **33. Net Realisable Value**

The open market value of the asset in its existing use, (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

### **34. Non-Operational Assets**

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

### **35. Operating Leases**

A lease other than a finance lease (see 15).

### **36. Operational Assets**

Property Plant and Equipment held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

### **37. Post Balance Sheet Events**

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

### **38. Private Finance Initiative (PFI)**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the

## GLOSSARY

end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

### **39. Property, Plant and Equipment**

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

### **40. Public Works Loans Board (PWLB)**

The PWLB 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.

### **41. Revaluation Reserve**

The Revaluation Reserve is an unusable reserve that contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment.

### **42. Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure which may properly be deferred, but which does not result in a tangible asset. An example of revenue expenditure funded from capital under statute is expenditure on improvement grants. These were previously referred to as deferred charges.

### **43. Revenue Expenditure / Income**

The cost or income associated with the day-to-day running of the services and financing costs.

### **44. Stock**

Comprise the following categories:

- Goods or other assets purchased for resale;
- Consumable stores;
- Raw materials and components purchased for incorporation into products for sale;
- Products and services in intermediate stages of completion;
- Long-term contract balances;
- Finished goods.

### **45. Treasury Management**

The management of the Council's debt and investment of surplus funds.

### **46. Useful Life**

The period over which the Council will derive benefits from the use of a fixed asset.



## 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/council-democracy/corp-governance/>

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 or local 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.

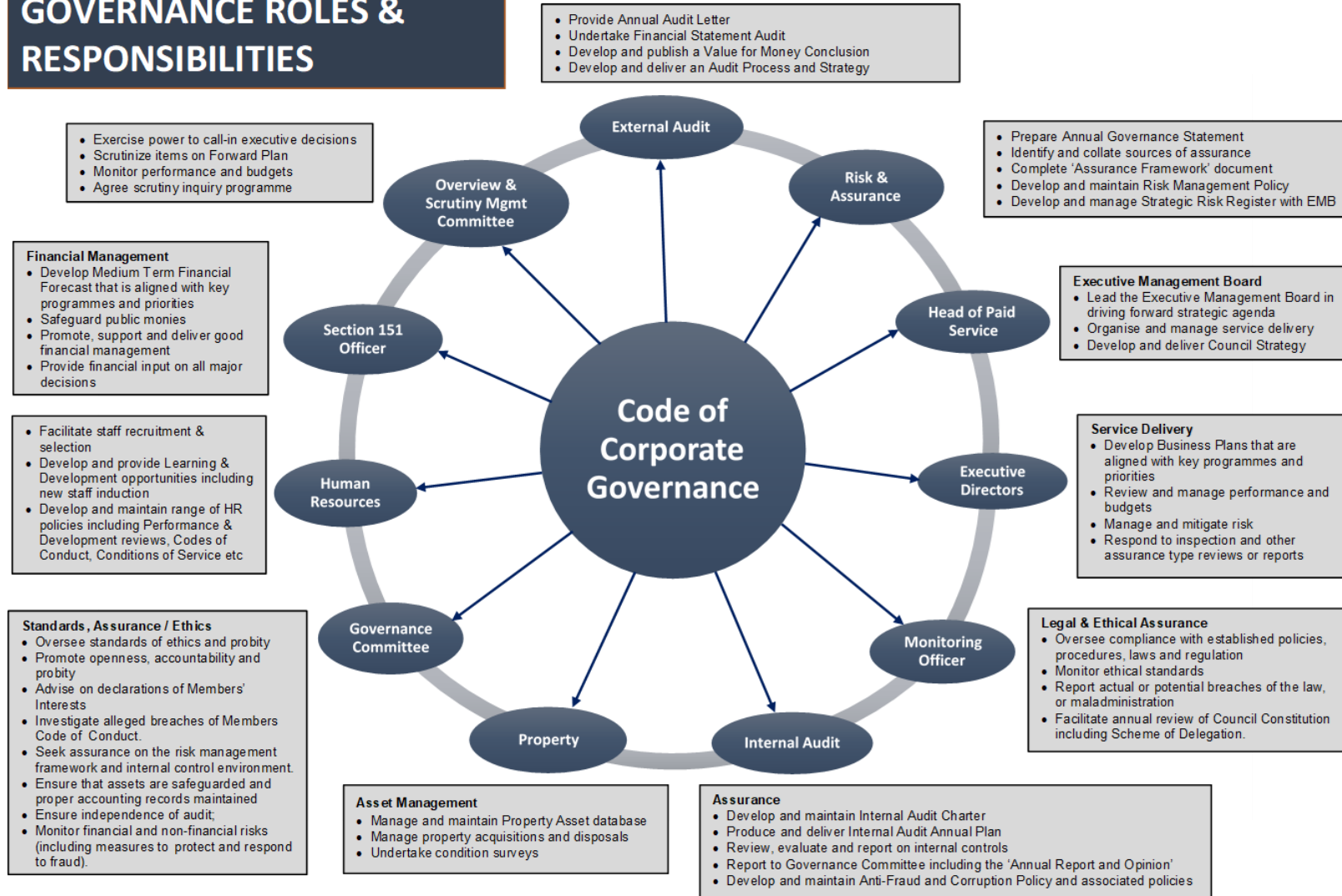
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing 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 2021 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

Responding to the COVID-19 pandemic has been the priority not only for central Government, but also local government over this last year. Southampton City Council has played a critical role in helping to lead the local response and, by necessity, quickly transformed the way in which governance was undertaken to ensure that the authority's statutory obligations and a transparent approach continued to be delivered.

In terms of decision making and democratic activity, at commencement of the first national lockdown it was identified that the usual decision-making processes may become impossible or unlawful to carry out. In March 2020, Council therefore resolved to temporarily suspend all parts of the Constitution that required formal decision making by Elected Members. In order to aid delivery of council functions during the pandemic, and to enable rapid responses to ever changing circumstances and national guidelines, further authority was delegated to the Chief Executive, Executive Directors and the Service Director; Legal and Business Operations, 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. Decisions taken under this route were advised to Full Council at subsequent meetings.

Local authorities were permitted to hold virtual meetings from 4 April 2020, when regulations came into force under the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 (SI 2020/392), made under section 78 of the Coronavirus Act 2020. The council held virtual committee meetings from 19<sup>th</sup> May 2020 utilising Microsoft Teams Live Events technology. These meetings were accessible by members of the public and all public meetings ran in this format for the remainder of the financial year, in accordance with temporary legislation. In addition to holding virtual committees, the council also hosted its schools' admissions appeals process in alternative paper based and virtual formats in accordance with The School Admissions (England) (Coronavirus) (Appeals Arrangements) (Amendment) Regulations 2020 and 2021.

The relevant Coronavirus Act powers only applied to council meetings that took place before 7 May 2021 and thereafter face-to-face meetings have resumed with appropriate Covid Safe precautions in place.

The local City Council and Police and Crime Commissioner elections that were due in May 2020, but were postponed in line with government direction, were held on 6<sup>th</sup> May 2021. It was a combined poll including the Police and Crime Commissioner elections for Hampshire and local city Councillor elections across Southampton. A range of Covid-19 safety measures and precautions were in place and communicated including a campaign to promote the opportunity of postal voting (across traditional and social media channels), mindful of the potential concerns about voting 'in person'.

Following the local elections, the '2020-2025 Southampton City Council Corporate Plan' was revised to articulate the key priorities of the Council over the next four years. The revised '2021-2025 Corporate Plan' is published on the council website and sets out the priorities and ambitions of the new political administration and provides a framework for assessing progress towards those priorities.

In response to the imposition of the national lockdown in March 2020, the council enacted its emergency planning structure comprising strategic 'Gold Command', chaired by the Deputy Chief Executive together with an operational 'Silver Command' chaired by the Service Director, Business Development. Each group met to discuss, recommend and agree key operational and service delivery matters including

## ANNUAL GOVERNANCE STATEMENT

reviewing the both the council's 'Covid Risk Log' and the 'Stop – Start' register, which tracked those services and activities that had to be stopped either due to lockdown restrictions or to enable additional resources to support the delivery of critical services. The frequency of both the 'Gold' and 'Silver' groups was revisited throughout 2020/21 to ensure that it was aligned with, and reflected, the current status of the pandemic in terms of spread of infection and impact on council services. There were also regular meetings between the council's Executive Management Board and Cabinet to provide updates on Covid-19 related issues.

The council's Emergency Preparedness, Resilience and Response Team together with the interim Director of Public Health and other relevant key officers have, and continue to work in close partnership with multi-agency forums and organisations across Southampton, and the Hampshire and Isle of Wight Local Resilience Forum (HIOW LRF) in response to the COVID-19 outbreak. A Southampton COVID-19 Health Protection Board was 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 impact of Covid-19 pandemic 'stress tested' the council during 2020/21 who played a key role in helping to lead the local response in supporting residents and local businesses during these difficult times. A robust budget was set in February 2020/21 which factored in financial resilience and an allowance for potential risks. This, together with a variety of Government funding streams, supported the council during COVID-19 however the ongoing impacts of pandemic remain uncertain, both in terms of service pressures and economic impact. The Finance team continues to work closely with services to ensure that Covid related spend and pressures are captured, and monitoring information is regularly returned to the Ministry of Housing, Communities and Local Government. The council's Medium-Term Financial Forecast is under review, given the uncertainty that exists around both income streams and spending, largely as a result of COVID-19, and will be presented for consideration by Cabinet as part of the preparation for the budget 2022/23.

During 2020/21 staff and Members who were able to work remotely continued to do so in line with Government guidance. During 2020/21, the council was able to support an additional 1,800 members of staff to work from home regularly. Capacity of the remote connection was more than quadrupled and new technology implemented to make it more reliable and increase the range of services available outside of the office. Roll out of Microsoft office 365 and use of 'Teams' was accelerated to support this enhanced capacity, which was a part of existing plans, but which had to be much more quickly implemented than previously anticipated.

The importance of ensuring the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing took even greater prominence in 2020/21. A range of information, tools, support and guidance was provided and also covered issues such as work-life balance, working together and financial wellbeing.

The council also undertook a wide-ranging view of 'how we work', 'where we work' and the 'spaces we work in'. This is intended to use the lessons learned during the pandemic to shape 'how we will work in the future' and how we can positively impact the customer experience and to support wellbeing – physical and mental health. The 'Way We Work Programme' will develop new practices and standards in three workstreams; Technology, Working Spaces and People & Culture. The work is heavily influenced by feedback from staff who have been engaged through surveys and workshops.

Any further 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 2021/22 Annual Governance Statement.

## 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.

As part of the council's 'Leadership and Management' training an Ethical Leadership module was developed in 2020/21 with all managers and leaders encouraged to attend. The module explores the seven principles of public life and values and behaviours that underpin these.

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 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' that 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 applies to contractors, suppliers, partners, agents, intermediaries and service users. The council also has in place an 'Anti-Money Laundering' policy which sets out the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. This policy details the procedures that must be followed (for example reporting of suspicions of money laundering activity) to enable the council and staff to comply with their legal obligations.

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 complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. The council welcomes hearing customers' comments, compliments, and complaints to better understand how they view our services and use these valuable opportunities to learn and improve for the future. There is a Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' published on the council's website which explains how to make a complaint and how it will be dealt with. There is also a separate 'Children's Services Complaint Procedure' which is also published on the council's website. Complaints relating to Members are dealt with under the Members' Code of Conduct.

The council's 'Social Value and Green City Procurement Policy' reflects a commitment to proactively work to ensure that all goods, works and services that it procures are sourced ethically and sustainably; both in the way the council procures and in terms of the standards that the council expects its suppliers, service providers and contractors to meet.

The council also has in place a Modern Slavery and Human Trafficking Statement sets out the Council's current position and future plans to understand all potential modern slavery risks related to its business and to put in place steps that are aimed at ensuring that there is no slavery or human trafficking in its own

# ANNUAL GOVERNANCE STATEMENT

business and/or in its supply chains.

## 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 provides information to residents, customers and other stakeholders on how they can 'have their say' on various issues using:

- Consultations
- Surveys and research
- 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, A public engagement exercise was undertaken with residents and stakeholders on the draft budget proposals between 16<sup>th</sup> December 2020 and 19<sup>th</sup> January 2021. The aim of this engagement exercise was to:

- Communicate clearly to residents and stakeholders the budget proposals for 2021/22;
- Ensure any resident, business or stakeholder who wished to comment on the proposals had the opportunity to do so, enabling them to raise any impacts the proposals may have; and
- Allow participants to propose alternative suggestions for consideration which they feel could achieve the objectives in a different way.

Southampton City Council, in conjunction with other local public service providers, also undertakes a 'City Survey' every two years to collect resident views on a range of topics. This provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions on how we are doing as a council and as a city. The surveys also include a set of common Local Government Association questions which allows Southampton to be benchmarked against the national average and for trends to be tracked over time. Full results are available on the Southampton Data Observatory: <https://data.southampton.gov.uk/> The latest survey ran between October 2020 and December 2020 and included questions on:

- Opinion on the local area
- Opinion on Council and other public services
- Communications and Digital exclusion
- Employment
- City of Culture bid
- Transport
- Wellbeing

In addition, four 'Covid-19 Residents Surveys' were undertaken in 2020 and were intended to provide both the council and other agencies across the city with an understanding of how residents were interpreting national guidance, how the pandemic was impacting residents' lives, and concerns that residents may have had during this time. This feedback was used to support the local response and to aid recovery efforts across the city.

The council has in place a 'People's Panel' which now has a membership of over 3,200 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

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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 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. This strategy is being reviewed and a Participation Action plan is being developed to sit underneath the new Southampton Children and Young People's Strategy 2022 – 2027. Elections have also been held for Southampton's own Member of Youth Parliament who is now in place.

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

The Southampton City Council Corporate Plan ('Corporate Plan') sets out how the council will create the environment to achieve the vision of Southampton as a city of opportunity. The Corporate Plan is delivered through detailed business plans, delivering on key priorities and 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.

The '2020-2025 Corporate Plan', that was in place during 2020-2021, was revised following the local elections in May 2021 to articulate the priorities and ambitions of the new political administration. The revised '2021-2025 Corporate Plan' is published on the council website and provides a framework for assessing progress towards those priorities. The vision of Southampton as a city of opportunity will be delivered by five workstreams: 1. Growth, 2. Wellbeing, 3. Our Greener City, 4. Communities, Culture and Heritage and 5. A council that works for and with you.

Progress in respect the commitments, initiatives and priorities is monitored, reviewed and updated on a six-monthly basis. The updated document is reviewed by both the council's Executive Management Board and Cabinet and is then published on the council's website. In addition, progress against the major Programmes and Projects within the Corporate Plan is also presented to the council's Governance Committee every 6 months.

To achieve the council's priority outcomes employees are expected to demonstrate the council's organisational values. These reflect the importance that the council places on behaviours, and the way that employees engage with customers, partners and colleagues:



There are also other key strategies that reflect the vision and ambition of both the city and wider region including the Southampton City Strategy (2015-2025) which is a partnership strategy that sets out the vision for the whole city. Southampton Connect is responsible for the delivery of the Southampton City Strategy with the vision that Southampton is a city of opportunity where everyone thrives. Southampton Connect is an 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.

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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 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 2021 the Solent LEP will develop a new future facing strategy called Solent 2050.

Solent Transport is a sub-regional transport partnership that comprises 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.

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

The council has in place a robust decision-making process that clearly sets out the actions and accountability in terms of who, when and how decisions are taken and where responsibility for decisions making rests. All decision reports are required to be submitted using a standard report template which identifies the 'Decision Maker', the decision or action required, why the report is recommended, alternative options considered together with a 'Detail' (including Consultation carried out) section. The template also includes separate sections detailing any Financial/Resource, Legal, Risk and Policy implications. Where appropriate these comment on how proposals will be paid for, the statutory power to undertake the action and/or relevant legislation that affect the proposals, any significant risks associated with the decision that need to be considered and that confirmation that the proposals are in accordance with the council's approved Policy Framework. Report authors are required to consult with relevant departments as part of the preparation and development of a report. This will always include Democratic Support, Corporate Legal and Finance but may also include Property, IT etc if the proposals within the draft report are relevant to these areas. All decision reports are signed off by the relevant Executive Director and Cabinet Member.

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.

Due to Covid-19 all scrutiny meetings were held remotely with members of the public able to view meetings live via the council's website. To enable public engagement interested residents or groups were invited to submit questions in writing in advance of the committee or panel meeting. At the discretion of the Chair, members of the public or stakeholder groups who have expressed an interest in contributing on a specific agenda item were invited to attend the virtual scrutiny meeting to contribute to the



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discussion. In addition, scrutiny inquiries continue to 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.

### **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 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 Forecast, the Wellbeing 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, organisational development and business planning, drive positive change and the delivery of agreed outcomes.

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. New initiatives under this broad umbrella include a specific focus for 2021 onwards on Diversity and Inclusion with priorities set by staff workshops.

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

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. This includes reference to the council's '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. There is also a range of associated guidance documents, templates and other tools to support officers in identifying and managing risk.

A key element of the council's risk management framework is the council's Strategic Risk Register which is developed in consultation with Executive Directors. This document reflects the key strategic risks that have been identified as needing to be managed in order to support the delivery of the council's key initiatives and priorities. The Strategic Risk Register is updated and reviewed by the Executive Management Team on a quarterly basis and identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report'

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identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary.

Risk management forms an important and integral part of the council's project management methodology with risk registers having been used extensively in respect of managing and supporting the council's response to Covid-19 and including supporting information decision taking.

Effective financial management is key to managing the delivery of a vast range of council services either directly or through/with others and ultimately improving the quality of life for residents. The council's Medium Term Financial Forecast ('MTFF') 2021/22 – 2024/25 provides a strategic financial framework and a forward looking approach to achieve long term financial sustainability for the council. It is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It also aids robust and methodical planning as it forecasts the council's financial position taking into account known pressures, major issues affecting the council's finances, including external economic influences as well as local priorities and factors.

The MTFF helps the council to respond, in a considered manner, to pressures and changes as a result of internal and external influences. This is particularly important during a period when the council faces considerable pressures and challenges, such as those relating to the Covid-19 pandemic. The MTFF recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management and delivery of services. The approach concentrates on the principles that will provide a strong direction for the medium term. The key objectives of the MTFF are to:

- Provide financial parameters within which budget and service planning should take place;
- Ensure that the Council sets a balanced and sustainable budget;
- 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 clear alignment between priority and affordability;
- Ensure that the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- 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
- Ensure that the Council's long term financial health and viability remain sound.

The MTFF enables integrated service and financial planning over the medium term, using a business planning approach. The resulting Medium Term Financial Model provides the framework within which decisions relating to future service provision can be made.

The Chartered Institute of Public Finance and Accountancy ("CIPFA") has published a new Financial Management Code for authorities to adhere to. The CIPFA Financial Management Code 2019 (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out the standards of financial management for local authorities, based on broad principles. It does not prescribe the financial management processes that local authorities should adopt but requires each authority to demonstrate that its processes satisfy the principles of good financial management. 2020/21 was the 'shadow' year for the implementation of the FM Code with the first year of compliance being 2021/22. Future budget updates to both Cabinet and Council will indicate how the processes adopted by the council ensure compliance with the standards set out in the Code.

As part its preparations for embedding enhanced standards of financial management the council undertook a self-assessment against the new FM Code in order to identify any significant gaps or areas for development. The conclusion of the self-assessment was that the council broadly operates within the expected principles, however a few areas to further strengthen our processes were identified such as ensuring the senior management team (the Executive Management Board) were up to date with the work on financial resilience and how Southampton compares with other council's and that the Financial Procedure Rules were fully up to date. The necessary areas for improvement will also be tabled at the Executive Management Board for discussion and the plan monitored for its implementation.

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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. The CFO (the Executive Director for Finance and Commercialisation and Section 151 Officer) is professionally qualified and is a key member of the Executive Management Team and reports directly to the Chief Executive. The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

The council has in place 'Business Plans' at service level that are aligned with the council's priorities and outcomes as set out in the Corporate Plan. The business plans provide an overview of the services being delivered together with the outcomes (and outputs) that are looking to be achieved. The council undertakes an annual business planning and budgeting process with all Service Business plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. An important part of the process is the 'sustainability/challenge' sessions that focus, in particular, on current and future service costs including opportunities for income growth.

All significant commercial partnership working arrangements also have a range of performance indicators which are used to monitor, 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 throughout the lifecycle of the contract. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose. Contract Management Teams in the Supplier Management Team and the Integrated Commissioning Unit support the council in managing contracts throughout the lifecycle of the contract and provide senior management interfaces between the council and our partnership service providers.

### **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).

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

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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 for Finance and Commercialisation and 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 comments. The Committee is able to request any director to attend a meeting to discuss the issues.
- 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 2020-21 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 2020/21 show that the level of 'limited reviews' have decreased from the previous year which would indicate that improvements are continuing, and that the effectiveness of the internal control environment is therefore improving. This is a positive indicator despite the overall assurance level of 'limited' that has been attributed to this year.
- The Internal Audit Charter and delivery of the annual Internal Audit plan but noting that the Audit Plan of assignments was reduced compared to the previous year to reflect the level of resource lost during 2020-21 due to the impact of Covid and the temporary redeployment of some audit staff during this period. The reduction was based on a re-evaluation of the risk level of the activity and an assessment of the requirements of the council and its immediate priorities.
- 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 'AGS 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. The self-assessments are completed by individual Heads of Service or Service Directors on behalf of their service areas in order to ensure that the most representative and comprehensive oversight is obtained, with the individual returns being signed off by the relevant Executive Director.
- 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

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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

The council's response to the Covid-19 Pandemic has tested both overall organisational resilience as well as the resilience within individual service areas. In respect of the latter it is recognised that, particularly in areas where specialist technical or professional advice is provided, there is reliance on a limited number of key individuals. In part, this is also reflected in the inconsistency in respect of the extent to which succession planning has been formally considered within individual service areas across the council.

**Planned Action:** Heads of Service to work with their 'Human Resources Business Partner' to fully understand the tools available to develop and have in place appropriate service resilience and succession planning arrangements. The activity may be informed by information and data such as re workforce age profile, grading, structures etc. in order to identify key areas, activities or 'pinch points' where focussed attention is required.

In addition, three days of assistance from the Local Government Association is being provided to support the council in terms of gaining an understanding of where the current challenges and opportunities are for talent management and succession planning. This exercise will involve interviewing some Heads of Service, Trade Union representatives, HR&OD staff etc and having workshops with a group of employees and managers.

**Responsible Officer:** Directorate Management Teams with the support of their respective HR Business Partner

**Target for completion:** End Q4 2021-22 (with position reflected on the 21-22 AGS Self-Assessment returns)

### 2. Governance Issue

As part the preparations for embedding the enhanced standards of financial management reflected in new CIPFA Financial Management Code 2019 for 2021-22, the council undertook a self-assessment against the new Code in order to identify whether there were any significant gaps or areas for further development. The conclusion of the self-assessment was that the council broadly operates within the expected principles, however some areas to further strengthen existing processes were identified.

**Planned Action:** The necessary areas for improvement to be tabled at the senior management team (Executive Management Board) for discussion and the plan monitored for its implementation.

**Responsible Officer:** Executive Director for Finance and Commercialisation and Section 151 Officer

**Target for completion:** End Q3 2021-22

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### 3. Governance Issue

It is recognised that as a large complex organisation that delivers over 700 services there is an ongoing challenge to ensure consistency in terms of staff (both new and existing) awareness, understanding and compliance and with key policies, process and procedures.

**Completed Action:** (End Q1 – 2021): The 'Performance and Development review' guidance that is published on the intranet now has a link that takes you through to a list of mandatory training (elements of which will vary according to the individuals' role). The list of mandatory training includes information governance, buying for the council, whistleblowing, anti-fraud and corruption etc.

**Planned Action:** An 'Ethics and Values' training module, which forms part of a new 'Collaborative Leadership Programme', has been developed. This module, which is targeted at all team leaders and managers below senior level, explores the council's organisational values and ethics and looks at key council policies and frameworks. Managers through interactions as part of the 'Performance Management and Development Framework' and 'one to one' supervision meetings will be required to determine who should attend this training.

**Responsible Officer:** Human Resources / Directorate Management Teams

**Target for completion:** End Q4 2021-22 re Ethics Module training (with position reflected on the 2021-22 AGS Self-Assessment returns)

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.

### Signed

.....  
**Sandy Hopkins**

Chief Executive

On behalf of Southampton City Council

.....  
**Councillor Dan Fitzhenry**

Leader of the Council

**AUDITOR'S REPORT**

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