



STATEMENT OF ACCOUNTS 2020/21

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NARRATIVE STATEMENT

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

The Borough of Test Valley

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

Key facts about Test Valley

Population 131,698 (SAPF 2020 base)¹

Average house price £349,000 March 2021 (£256,400 National Average)²

84.0% of 16 – 64 Year olds in employment (75.4% National Average)³

Average gross weekly (Full time) earnings £603.30 (£587.10 National Average)³

2,795 (3.7%) of working age residents claiming job seekers allowance or universal credit (6.5% National Average)³

6,780 Business Enterprises³

16,922 tonnes of waste recycled or composted in 2020/21

1,530 planning applications received in 2020/21

Source:

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

Governance

During 2020/21, Test Valley Borough Council consisted of 43 elected Councillors representing 20 wards. The political structure at the end of the year was:

Conservative 22
Liberal Democrat 12
Andover Independents 3
Andover Alliance 1
Independent 1
Vacancies 4

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

Council Priorities, Corporate Plan and Performance

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

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

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

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

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

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

Achievements against the Corporate Action Plan

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

Headline examples of progress in year two include:

- A new era for Andover as the Council adopted a masterplan for Andover Town Centre. Commissioned in 2019, master planners Hemmingway Design and NEW Masterplanning have consulted with more than 4,000 residents, businesses and other stakeholders to form an innovative new vision for the town.
- Adoption of the masterplan for the South of Romsey Town Centre, the Masterplan will help transform the area around Crosfield Hall and the Broadwater Road car park over the next five to ten years. At the heart of this vision was the recommendations of the citizens' assembly and several rounds of public consultation and feedback.
- Delivery of the £1.6m Town Mills Riverside park, providing a peaceful setting for those wishing to enjoy the space to play, picnic and relax. This first major piece of regeneration work for Andover town is now complete.
- Maintained regular contact with and supported over 50 local volunteer groups across the borough (encompassing at least 1,966 volunteers between them). Working to understand their needs and create partnership working opportunities with the Council and other partners to ensure communities continue to prosper throughout the pandemic.
- Awarded over £27,000 in Covid emergency grants to local volunteer groups, helping these groups in various ways, from covering fuel costs to the provision of PPE for volunteers.

- Administered DEFRA funding of £89,000 to local groups to support those most at risk of food poverty and directed £31,000 of funding to projects supporting people's mental health and wellbeing over the next twelve months.
- TVBC exceeded its affordable housing target for the sixth year in a row. 296 units of affordable housing were delivered in 2020/21 exceeding target by nearly 48%.
- Since the start of the pandemic, 90 households have been provided with emergency accommodation as part of the 'Everyone In' initiative. 65% of these households have been supported to move into settled accommodation.
- Distribution of over 1,800 discretionary grants totalling £5.3m to support those businesses significantly impacted by the pandemic
- The Council was able to use a £37K Private Rented Sector Innovation & Enforcement Grant from central government, to commission a housing stock condition database which uses a range of data sources to inform local housing strategies and policies.
- Completion of the Interim Economic Development Strategy 2019-2023 which sets out how the authority will help support businesses, boost the economy and look to the future for its town centres
- In June 2020 the Council approved the climate emergency action plan and is now working to implement the recommended actions
- The authority's annual replacement programme saw 6093 trees planted across the borough by the council. There are currently 467 street trees in the establishment programme which have been planted over the last 3 years.
- The Abbotswood sports site is now open, with 2 new grass pitches and a new pavilion with community space.
- Works have progressed with the development of the new outdoor sports hub on the new Kings Chase development/Ganger Farm. This facility will open in the summer of 2021.

Financial Performance

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

Revenue Outturn for 2020/21

The initial forecast of General Fund revenue requirements began soon after the budget for 2019/20 was approved. A significant range of essential savings / improved income opportunities were identified and included in the budget and this is likely to be required again in the medium term.

The detailed budget was approved by Council on 26th February 2020 which was before the Covid-19 pandemic hit. The approved net expenditure forecast for 2020/21 totalled £11.538M. No draws to or from general reserves were included in the budget.

The actual outturn for 2020/21 reported to Cabinet on 23rd June 2021 was £694,000 worse than expected. This deficit was covered by a transfer from the Collection Fund Equalisation Reserve.

The impact of the Covid-19 pandemic on the Council and its' finances was significant and resulted in a net additional cost of £1.724M. The breakdown of this is shown in the following table.

	£'000
Additional expenditure (contractual commitments; remote working infrastructure etc.)	1,701
Reduction in budgeted income (car parking; leisure facilities; planning fees; investment income etc.)	4,481
Total additional costs due to Covid-19	6,182
Government Grant received in four tranches	(1,571)
Sales, Fees & Charges compensation scheme	(2,165)
Coronavirus Job Retention Scheme	(251)
New Burdens Grants	(471)
Net cost due to Covid-19	1,724

The impact of this additional net cost was partially offset by net savings and additional income in service areas of £1.030M. The most significant of these were:

- Employee cost savings of £379,000
- Travel savings of £92,000
- Various supplies & services and premises savings of £277,000
- Additional income from Services of £270,000

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

	Approved Budget 2020/21 £'000	Actual 2020/21 £'000	Variance £'000
Service Expenditure (including Investment Property income and expenditure)	12,841	19,325	(6,484)
Corporate Items			
Reversal of capital charges including depreciation	(5,250)	(5,861)	611
Investment income, borrowing and MRP	(283)	(56)	(227)
Non-service related grants	(5,744)	(16,898)	11,154
Business rates levy	2,120	2,913	(793)
Retention of business rates for renewable energy schemes	(420)	(417)	(3)
Transfers to Earmarked / Capital reserves	8,274	15,565	(7,291)
Transfer from Collection Fund Equalisation Reserve arising from deficit in year	0	(694)	694
Transfer to / (from) Pension Reserve	0	(2,349)	2,349
Other		10	(10)
GENERAL FUND REQUIREMENTS	11,538	11,538	0
Met By			
Locally retained business rates	4,897	4,897	0
Council Tax	7,644	7,644	0
Other Collection Fund	(1,003)	(1,003)	0
TOTAL REVENUE RESOURCES	11,538	11,538	0

Accounting for Business Rates

Under the accounting arrangements for business rates, the Council retains 40% of the business rates collected; this was estimated in the original estimate to be £22.048M for 2020/21. From this amount the Council was required to pay the government a 'tariff' of £17.151M, leaving net budgeted income in the year of £4.897M compared to a baseline of £2.381M.

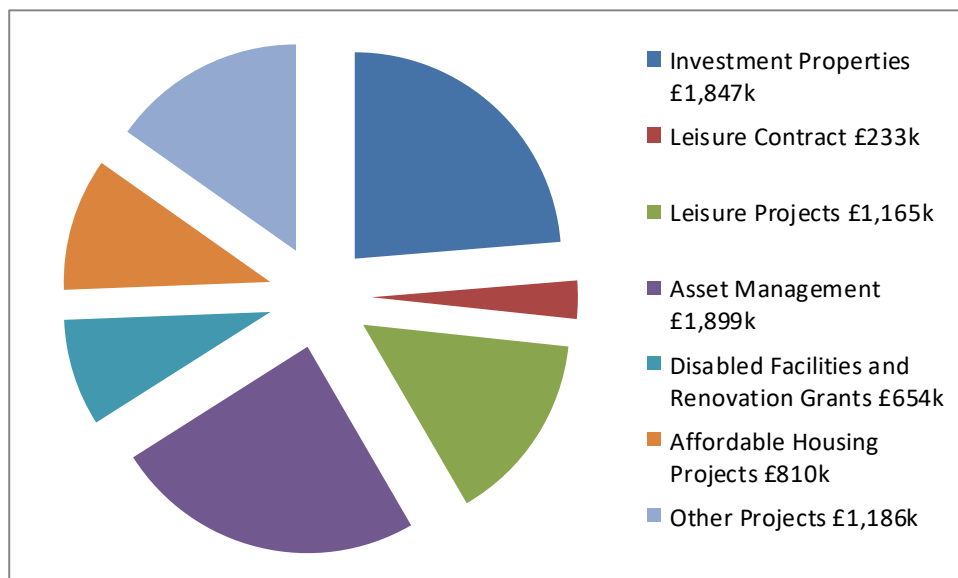
A complicated system of grants in respect of small business rates and other reliefs along with a levy for growth over the baseline figure is also in place. The budget assumed, after taking account of these reliefs and grants, a growth above the baseline of £4.240M resulting in a levy of £2.120M being payable. The actual retained income after taking account of the grants was £8.207M, a growth of £5.826M over the baseline figure. Of this, 50% is payable to the government as a levy on growth, after which the Council will retain a net surplus of £2.913M.

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

	£'000
Total retained income from business rates	8,207
Baseline	(2,381)
Net growth on business rates	5,826
Levy @ 50% payable to government	(2,913)
Income retained by Test Valley	2,913

Capital Programme

Capital spending for the year totalled £7.794M, as summarised in the following chart:



The Council has invested substantially in capital projects in the year. The most significant were a number of investment properties with a total value of £1.847M.

The Council finances its capital expenditure from a mixture of usable capital receipts, capital grants and contributions, and borrowing. In 2020/21, 21% came from usable capital receipts (£1.647M). The remainder of the capital expenditure was funded from contributions from revenue (£4.037M) and capital grants and contributions (£2.110M). The Council has set aside reserves for the future maintenance of its assets; budgeted asset management costs in 2021/22 and beyond will be funded from these reserves.

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

	2021/22 £'000
Asset Management Projects	2,533
Affordable Housing Projects	810
Disabled Facilities & Renovation Grants	950
Play Areas / Skate Parks	146
Leisure Contract	1,565
Sports & Recreation - Ganger Farm & Picket Twenty	1,632
Community & Leisure Projects	829
Hampshire Community Bank	125
Pocket Park, Town Mill Access & Environmental Enhancement	208
Strategic Purchase	1,156
Investment Properties	20,151
Other Capital Projects	955
TOTAL	31,060

Financial Position at the Year End

General Fund reserves stood at £2.604M at 1st April 2020. This is considered to be a prudent minimum level of general reserves and this figure remains unchanged at 31st March 2021.

In addition to the General Fund balances mentioned above, the Council held earmarked reserves of £34.880M available for specific revenue purposes and capital reserves of £16.889M available to spend on capital schemes.

Valley Housing Limited

On 30th April 2016, Valley Housing Limited, a Housing Development and Management Company which is a wholly owned subsidiary of Test Valley Borough Council was incorporated. Group accounts have not been prepared for the year ended 31st March 2021 as the value of transactions is not considered to be material.

COVID-19 Pandemic

As the situation with the COVID-19 pandemic carries on into 2021/22, the Council has continued to ensure that essential services to its residents and business communities are protected and delivered as a priority.

The budget for 2021/22 reported to Council in February 2021 was balanced, but anticipated net additional costs due to Covid-19 after additional government support of £1.050M. The top five areas still being impacted are:

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

The Head of Finance & Revenues continues to update the MHCLG data gathering exercise on a monthly basis, and this in turn is used to inform the Council's management team and Councillors of the ongoing picture for the Council. It will also help to assess the financial impact on the Council's Medium Term Financial Strategy, which will be updated in November 2021.

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

The Council's workforce has responded well to new ways of working with a large proportion of office-based staff still working from home.

The Council's usable reserves position as at 31st March 2021 is shown in note 28 to the accounts. The Head of Finance & Revenues has reviewed these reserves and is satisfied that in the short to medium term there is no risk to the Council's "going concern" assessment.

Conclusion

The financial year to which this Statement of Accounts relates has been like no other. The impact of coronavirus has been felt in all service areas and led to a number of material changes that are reflected throughout the accounts, particularly with regard to Collection Fund transactions.

However, the Council has continued to perform its services to a high level whilst adapting to local governance changes and the wider community response.

Reserves remain at a level which will ensure that service provision in the medium term is secure and that all known liabilities can be met.

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

C. Whatley FCCA
Head of Finance & Revenues

EXPLANATION OF THE ACCOUNTING STATEMENT

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

There have been no major changes in accounting policy in 2020/21.

The accounts for 2020/21 consist of the following key statements:

- **The Statement of Responsibilities** declares the respective responsibilities of the Council and the Head of Finance & Revenues for the production of the Statement of Accounts.
- **The Expenditure and Funding Analysis** is a note to the financial statements, rather than a key statement. It shows all income and expenditure incurred by the Council throughout the year under statutory funding provisions and the adjustments that are required to these figures to produce the Comprehensive Income & Expenditure Statement under generally accepted accounting practices.
- **The Comprehensive Income & Expenditure Statement** shows all income and expenditure incurred by the Council throughout the year; it includes day-to-day transactions from running the organisation as well as gains / losses on assets and pension liabilities. The total comprehensive income and expenditure shown represents the total movement in the Council's reserves during the year.
- **The Movement in Reserves Statement** summarises the changes in balances on the Council's reserves in the year. Reserves are classified as either usable or unusable. Usable reserves include the unallocated General Fund Balance, Earmarked Revenue Reserves and the Capital Receipts Reserve. These are the reserves that the Council can apply to future expenditure subject to statutory conditions (e.g. the Capital Receipts Reserve can only be used to finance capital expenditure). Unusable reserves such as the Capital Adjustment Account and Revaluation Reserve generally reflect the timing differences between the purchase and the consumption of economic benefits of assets.
- **The Balance Sheet** shows the financial position of the Council and discloses the assets and liabilities for all Council Services. At the balance sheet date the net worth of the Council was £223.1M.
- **The Cash Flow Statement** summarises the Council's cash transactions for the year.
- **The Collection Fund** records all income from Council Tax and business rates. Expenditure includes payments to central government, Hampshire County Council (HCC), Hampshire Fire & Rescue (HFRA) and the Council's General Fund in respect of business rates' income; and precepts to HCC, HFRA, Hampshire Police and Crime Commissioner, local parish/town councils and the Council's own demand on the Collection Fund in respect of Council Tax. The Collection Fund is not incorporated within the Comprehensive Income & Expenditure Statement as it reflects the statutory requirement for billing authorities to maintain a separate Collection Fund.

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

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

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

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS 2020/21

The Council's Responsibilities

The Council is required to:

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

The Head of Finance & Revenues' Responsibilities

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

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

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

The Head of Finance & Revenues has also:

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

Certification of the Head of Finance & Revenues

I hereby certify that the Statement of Accounts gives a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March, 2021.

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

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

EXPENDITURE AND FUNDING ANALYSIS YEAR ENDED 31ST MARCH 2021

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

2019/20 Restated - See Note 1.3			2020/21			Note
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	
£'000	£'000	£'000	£'000	£'000	£'000	
687	1,770	2,457	3,349	996	4,345	
3,419	1,774	5,193	3,542	1,743	5,285	
2,594	403	2,997	1,873	345	2,218	
1,491	1,282	2,773	1,533	1,955	3,488	
1,065	524	1,589	1,490	697	2,187	
709	79	788	928	82	1,010	
(9,332)	10,540	1,208	(7,814)	10,138	2,324	
(208)	23	(185)	(13)	31	18	
5,830	(451)	5,379	4,630	354	4,984	
3,172	(731)	2,441	2,965	(2,187)	778	
9,427	15,213	24,640	12,483	14,154	26,637	5
		Community & Leisure				
		Environmental Service				
		Finance & Revenues				
		Housing & Environmental Health				
		Planning & Building				
		Planning Policy & Economic Development				
		Property & Asset Management				
		Benefits				
		Corporate & Support				
		Central Costs				
(12,621)	(55,087)	(67,708)	(23,217)	(16,385)	(39,602)	5
		Other Income & Expenditure				
(3,194)	(39,874)	(43,068)	(10,734)	(2,231)	(12,965)	5,8
		Surplus				
(23,556)		Opening General Fund	(26,750)			
(3,194)		Surplus on General Fund in Year	(10,734)			
(26,750)		Closing General Fund	(37,484)			

2019/20 £'000		2020/21 £'000
(2,604)	General Fund Balance	(2,604)
(24,146)	Earmarked Reserves Balance	(34,880)
(26,750)	Total General Fund	(37,484)

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT YEAR ENDED 31 MARCH 2021

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

2019/20 Restated See Note 1.3		Net Exp.	Services	2020/21		Net Exp.	Not
Exp.	Income £'000	2019/20 £'000		Exp. £'000	Income £'000	2020/21 £'000	
4,892	(2,435)	2,457	Community & Leisure	5,263	(918)	4,345	
7,117	(1,924)	5,193	Environmental Service	7,448	(2,163)	5,285	
3,396	(399)	2,997	Finance & Revenues	9,161	(6,943)	2,218	
3,701	(928)	2,773	Housing & Environmental Health	4,673	(1,185)	3,488	
3,284	(1,695)	1,589	Planning & Building	3,549	(1,362)	2,187	
1,059	(271)	788	Planning Policy & Economic Development	1,094	(84)	1,010	
7,862	(6,654)	1,208	Property & Asset Management	6,800	(4,476)	2,324	
22,652	(22,837)	(185)	Benefits	20,526	(20,508)	18	
6,763	(1,384)	5,379	Corporate & Support	5,746	(762)	4,984	
3,271	(830)	2,441	Central Costs	2,933	(2,155)	778	
63,997	(39,357)	24,640	Net Cost of Services	67,193	(40,556)	26,637	
			Other Operating Income and Expenditure				
0	(380)	(380)	Profit on disposal of Property, Plant & Equipment	0	(572)	(572)	20
1,598	(1,598)	0	Parish Precepts	1,717	(1,717)	0	
			Financing and Investment Income and Expenditure				
0	(758)	(758)	Interest Income	0	(407)	(407)	30
164	0	164	Interest Payable	160	0	160	30
196	0	196	Impairment Losses / (Gains)	336	0	336	
4,131	(2,814)	1,317	Pension Fund Interest Costs	4,020	(2,605)	1,415	14
0	(41,593)	(41,593)	Changes in Fair Value of Investment Properties	0	(4,816)	(4,816)	17
333	(7,706)	(7,373)	Net Investment Property Income	295	(7,820)	(7,525)	17
70,419	(94,206)	(23,787)	Net Operating Expenditure	73,721	(58,493)	15,228	
			Taxation and non-specific grant income				
0	(7,391)	(7,391)	Council Tax Income	0	(7,733)	(7,733)	9
18,935	(21,810)	(2,875)	Business Rates Income & Expenditure	21,166	(17,531)	3,635	9
0	(6,017)	(6,017)	Non Ringfenced Government Grants	0	(16,898)	(16,898)	9
0	(2,998)	(2,998)	Capital Grants and Contributions	0	(7,197)	(7,197)	9,21
89,354	(132,422)	(43,068)	Surplus on the provision of services	94,887	(107,852)	(12,965)	
			Other comprehensive income and expenditure				
0	(2,076)	(2,076)	Net gains on revaluation of Property, Plant & Equipment	0	(8,572)	(8,572)	16
3,218	0	3,218	Re-measurement of the net defined benefit pension liability	6,389	0	6,389	14
92,572	(134,498)	(41,926)	Total comprehensive income and expenditure	101,276	(116,424)	(15,148)	

MOVEMENT IN RESERVES STATEMENT YEAR ENDED 31 MARCH 2021

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

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

	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000	Note
<u>Movements during 2019/20</u>							
Balance as at 31st March 2019	23,556	6,022	3,464	33,042	135,463	168,505	
Total Comprehensive Income & Expenditure	43,068	0	0	43,068	(1,142)	41,926	
Adjustments between accounting basis and funding basis under regulations	(39,874)	5,783	1,492	(32,599)	32,599	0	8
Increase / (Decrease) in Year	3,194	5,783	1,492	10,469	31,457	41,926	28,29
Balance as at 31st March 2020	26,750	11,805	4,956	43,511	166,920	210,431	
<u>Movements during 2020/21</u>							
Total Comprehensive Income & Expenditure	12,965	0	0	12,965	2,183	15,148	
Adjustments between accounting basis and funding basis under regulations	(2,231)	(988)	1,116	(2,103)	2,103	0	8
Increase / (Decrease) in Year	10,734	(988)	1,116	10,862	4,286	15,148	28,29
Balance as at 31st March 2021	37,484	10,817	6,072	54,373	171,206	225,579	

2019/20 £'000		2020/21 £'000
2,604	General Fund Balance	2,604
24,146	Earmarked Reserves Balance	34,880
26,750	Total General Fund	37,484

BALANCE SHEET AS AT 31 MARCH 2021

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

2019/20			2020/21		Note
£'000	£'000		£'000	£'000	
82,431		Land & Buildings	90,284		16
3,310		Vehicles, Plant & Equipment	3,631		16
9,573		Community Assets	11,918		16
692		Infrastructure Assets	663		16
427		Surplus Assets	325		16
	96,433	Property, Plant & Equipment (PPE)		106,821	
	139,815	Investment Properties		148,571	17
	89	Intangible Assets		101	18
805		Long-Term Debtors	724		30
5,404		Long-Term Investments	5,403		30
	6,209	Long-Term Assets		6,127	
10,658		Cash and Cash Equivalents	15,831		22
56,346		Short-Term Investments	50,450		30
192		Inventories	202		
10,138		Debtors	26,871		23
(1,976)		Less: Impairment Allowance	(2,364)		23
	75,358	Current Assets		90,990	
(34,252)		Creditors	(44,940)		24
(261)		Short-Term Borrowing	(264)		30
(3,151)		Provisions	(2,110)		25
	(37,664)	Current Liabilities		(47,314)	
	280,240	Total Assets less Current Liabilities		305,296	
(7,018)		Long-Term Borrowing	(6,784)		30
(62,791)		Net Liability to Pension Fund	(72,933)		14
	(69,809)	Long-Term Liabilities		(79,717)	
	210,431	Net Assets		225,579	
		Usable Reserves			
2,604		General Fund Balance	2,604		28
24,146		Revenue and Earmarked Reserves	34,880		28
11,805		Capital Receipts Reserve	10,817		28
4,956		Capital Grants Unapplied	6,072		28
	43,511	Total Usable Reserves		54,373	
		Unusable Reserves			
21,638		Revaluation Reserve	29,749		29
209,008		Capital Adjustment Account	220,293		29
7		Deferred Credits	7		29
(771)		Collection Fund Adjustment Account	(5,714)		29
(171)		Accumulated Absences Account	(196)		29
(62,791)		Pension Fund Reserve	(72,933)		29
	166,920	Total Unusable Reserves		171,206	
	210,431	Total Equity		225,579	

These financial statements replace the unaudited financial statements certified on 30th June 2021.

Signed:..... Date: 12th January 2022

C Whatley, FCCA, Head of Finance & Revenues

CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2021

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

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

2019/20			2020/21		Note
£'000	£'000		£'000	£'000	
		Revenue Activities			
	43,068	Net surplus on the provision of services		12,965	
		Adjustments for non-cash transactions			
2,844		Depreciation of PPE / Amortisation of intangibles	2,921		16,18
(41,593)		Revaluation Gains on Investment Properties	(4,816)		17
1,991		Impairment & Downward Valuations of PPE & intangibles	898		16,18
3,013		Pension Fund Transfers	3,753		14
625		Other non-cash items	(4,514)		27
	(33,120)			(1,758)	
	(3,378)	Adjustments in respect of Investing Activities		(3,798)	
		Adjustments for items on an accruals basis			
1,623		(Increase) / Decrease in Debtors	(9,525)		
27		(Increase) / Decrease in Inventories	(10)		
4,017		Increase in Creditors	14,537		
	5,667			5,002	
	12,237	Net Cash Inflow from Operating Activities		12,411	
		Investing Activities			
(62,877)		Purchase of Short-term and Long-term Investments	(47,882)		
47,000		Proceeds from Short-term and Long-term Investments	53,750		
(6,289)		Purchase of Assets	(5,497)		
4,030		Sale of Assets	18		
3,697		Other Capital Cash Received	3,579		
	(14,439)	Net Investing Activity Cashflow		3,968	
		Financing Activities			
1,550		Cash receipts of long-term borrowing	0		
(202)		Cash payments to reduce outstanding borrowing	(230)		
950		Other receipts / (payments) for financing activities	(10,976)		27
	2,298	Net Financing Activity Cashflow		(11,206)	
	96	Net Increase in Cash and Cash Equivalents		5,173	
	10,562	Cash and Cash Equivalents at the start of the reporting period		10,658	
	10,658	Cash and Cash Equivalents at the end of the reporting period		15,831	

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NOTES TO THE FINANCIAL STATEMENTS

1. **Accounting Policies**

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

1.2. **General Principles**

The Statement of Accounts summarises the Council's transactions for the 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) in accordance with proper accounting practices.

These practices primarily comprise; the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ('the Code') and the Service Reporting Code of Practice 2020/21 supported by International Financial Reporting Standards (IFRS) and statutory guidance.

The Statement of Accounts has been prepared on a going concern basis. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.3. **Prior Period Adjustments**

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

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

The Council has made a prior period adjustment in preparing the 2020/21 Statement of Accounts.

- For comparative purposes, the 2019/20 Comprehensive Income & Expenditure Statement and Expenditure and Funding Analysis (and supporting notes) have been restated to reflect a change in the segmental reporting structure of the Council. A new service Finance & Revenues has been created, with Finance previously under Corporate & Support, and Revenues as a service on its' own. The Balance Sheet, Movement in Reserves Statements and Cash Flow Statement are unaffected by this change.

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

1.4. **Accruals of Income & Expenditure**

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

- Revenue from contracts from service recipients, whether for services or the provision of goods, is accounted for when (or as) the goods or service are

transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services provided are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.5. **Cash and Cash Equivalents**

Cash is represented by cash in hand.

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

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

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

Provisions

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

1.7. Reserves

The Council sets aside specific and general amounts as reserves for future purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to be included in the surplus / deficit on the provision of services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back in to the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets and retirement benefits and do not represent usable resources to the Council. Transactions with these reserves are explained in the relevant accounting policies below.

1.8. Government Grants and Contributions

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

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

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

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

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

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

Business Improvement District

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

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

Community Infrastructure Levy

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

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges (5% for the Council) may be used to fund revenue expenditure.

1.9. **Employee Benefits**

Benefits Payable During Employment

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

An accrual is made for the cost of holiday entitlement and accrued flexible working hours (based on an average per employee) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is charged to the surplus or deficit on the provision of services but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year that the absence occurs.

Termination Benefits

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

Post-Employment Benefits

The Council's employees are entitled to join the Local Government Pension Scheme administered by Hampshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for the Council.

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet based on an actuarial valuation.

Full details of the valuation method are shown in note 14 to the core financial statements.

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

1.10. Events after the Balance Sheet Date

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

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

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

1.11. VAT

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

1.12. Overheads and Support Services

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

1.13. **Intangible Assets**

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

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

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

1.14. **Investment Property**

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

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

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

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

1.15. **Property, Plant and Equipment**

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

Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that secures but does not add to an asset's potential to deliver future economic benefits (i.e. repairs and maintenance) is charged as an expense when it is incurred.

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

Impairment

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

Where impairment losses are identified, they are accounted for by:

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

Where an impairment loss is reversed subsequently, the reversal is credited to relevant service lines in the Comprehensive Income & Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would be charged if the loss had not been recognised.

Disposals

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

Depreciation

Depreciation is provided for on all assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets).

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

Componentisation of an asset will be considered where:

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

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

1.16. **Heritage Assets**

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

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

Heritage assets are either excluded from the Balance Sheet or included within Community Assets, valued at historic cost. The Code requires Heritage Assets to be classified separately on the Balance Sheet and to be valued at fair value. The Council has not re-stated Heritage Assets in accordance with the Code due to their immaterial overall value. The impact of this is explained in note 19.

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

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

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

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

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

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

1.19. **Leases**

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

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

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

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

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

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

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

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

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

Council as Lessee – Finance Leases

Assets held under finance leases are recognised on the Balance Sheet at the commencement of the lease at fair value measured at the lease's inception (or the present value of the minimum lease payments if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between;

- a charge for the acquisition of the interest in the asset – applied to write down the lease liability and
- a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income & Expenditure Statement).

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

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

Council as Lessee – Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as an expense of the services benefitting from the use of leased assets. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Council as Lessor – Finance Leases

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

Council as Lessor – Operating Leases

Where the Council grants an operating lease over an asset, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

1.20. **Financial Instruments**

Financial Liabilities

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

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit or Loss

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

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

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

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

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

- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

1.21. Inventories

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

1.22. Fair Value Measurement

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

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

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

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

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

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

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

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

There are no Accounting Standards that have been issued but not yet adopted that would have a material effect on this year's Statement of Accounts were they in effect for the year ended 31st March 2021, nor are they expected to have a material effect on the Statement of Accounts for the year ended 31st March 2022.

3. Critical Judgements in Applying Accounting Policies

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

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

Asset classifications – the Council has made judgements on whether assets are classified as Investment Property or PPE. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be PPE assets whereas if full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines how revalued amounts are shown in the accounts and whether depreciation is chargeable on the asset.

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

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

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

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

The items in the Council's Balance Sheet at 31st March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the following table.

Item	Uncertainties	Effect if actual results differ from assumptions
Impairment Allowance	The Council has made allowances for doubtful debts of £2.364M in 2020/21 (2019/20 £1.976M) based on what it believes to be a prudent but realistic level.	If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £118,200 (2019/20 £98,800).
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase,	More information can be found in Note 14 about the sensitivity to changes in assumptions in respect of: <ul style="list-style-type: none">• The discount rate used

	changes in retirement ages, mortality rates and expected returns from pension fund assets. A firm of actuaries is engaged by the pension fund administrator to provide expert advice about the assumptions to be applied.	<ul style="list-style-type: none"> • Salary inflation • Rates of increase to pensions in payment • Mortality rates
Provisions	The Council has made a provision of £2.110M in 2020/21 (2019/20 £3.151M) in respect of its share of appeals made by ratepayers for past business rates' costs. It is not certain how many of the appeals will be upheld.	A 10% increase or decrease in the actual number of appeals upheld would result in a change to the provision of £211,000 (2019/20 £315,100).
Property, Plant & Equipment	The Council carries out a rolling programme of valuations for PPE required to be measured at current value and £90.284M of assets were valued at current value on 2020/21.	Every 1% change in the valuation of land and buildings would require an adjustment of £902,800.
Investment Properties	The Council values its investment properties annually and the fair value at 31 st March 2021 was £148.571M. 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.	Every 1% change in the valuation of investment properties would require an adjustment of £1.486M. If the useful life of assets is reduced, depreciation increases and the carrying value of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £104,000 if the useful lives were reduced by one year.

5. Note to the Expenditure and Funding Analysis

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

Transactions in 2020/21

Adjustments between Funding and Accounting Basis				
2020/21				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Differences (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Community & Leisure	629	194	173	996
Environmental Service	719	611	413	1,743
Finance & Revenues	0	345	0	345
Housing & Environmental Health	1,691	264	0	1,955
Planning & Building	352	345	0	697
Planning Policy & Economic Development	0	82	0	82
Property & Asset Management	2,370	243	7,525	10,138
Benefits	0	0	31	31
Corporate & Support	100	254	0	354
Central Costs	0	0	(2,187)	(2,187)
Net Cost of Services	5,861	2,338	5,955	14,154
Other income and expenditure from the Expenditure and Funding Analysis	(16,815)	1,415	(985)	(16,385)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(10,954)	3,753	4,970	(2,231)

Comparative Transactions for 2019/20

Adjustments between Funding and Accounting Basis				
2019/20 Restated - See Note 1.3				
	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Differences (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Community & Leisure	1,389	240	141	1,770
Environmental Service	697	687	390	1,774
Finance & Revenues	0	403	0	403
Housing & Environmental Health	1,014	268	0	1,282
Planning & Building	147	377	0	524
Planning Policy & Economic Development	0	79	0	79
Property & Asset Management	2,846	316	7,378	10,540
Benefits	0	0	23	23
Corporate & Support	224	(675)	0	(451)
Central Costs	0	0	(731)	(731)
Net Cost of Services	6,317	1,695	7,201	15,213
Other income and expenditure from the Expenditure and Funding Analysis	(49,269)	1,318	(7,136)	(55,087)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(42,952)	3,013	65	(39,874)

a) Adjustments for Capital Purposes

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

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

b) Net Change for the Pensions Adjustments

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

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

c) Other differences

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

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

Committed income from Section 106 grants of £1.855M was received in the year from developers but not included in the report to management. This is transferred to earmarked reserves to pay for future maintenance of community facilities, parks and open spaces under the Section 106 agreements. The amount used to pay for maintenance in the year was £586,000.

- For **Financing and investment income and expenditure** – this column recognises adjustments to the General Fund for net investment property income of £7.525M which is reported in the General Fund in Net Cost of Services.
- For **Taxation and non-specific grant income and expenditure** - this column represents the difference of £4.943M between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the beginning of the year and the income recognised under generally accepted accounting practices in the Code of Practice. This is a timing difference, as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

6. Segmental Income

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

Service	2019/20 Restated Revenues from external customers £'000	2020/21 Revenues from external customers £'000
Community & Leisure	2,416	568
Environmental Service	1,924	2,104
Finance & Revenues	201	131
Housing & Environmental Health	501	586
Planning & Building	1,695	1,350
Planning Policy & Economic Development	34	24
Property & Asset Management	14,352	12,210
Benefits	518	288
Corporate & Support	1,369	685
Central	508	1,855
Total income analysed on a segmental basis	23,518	19,801

7. Expenditure and Income analysed by nature

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

Expenditure / Income	2019/20 £'000	2020/21 £'000
Expenditure		
Employee benefits expenses	21,091	21,749
Other service expenses	37,093	40,219
Depreciation, amortisation, impairment	4,835	3,820
Other capital charges	1,480	2,041
Interest payable	164	160
Precepts and levies	1,598	1,717
Pension fund interest costs	1,317	1,415
Total expenditure	67,578	71,121
Income		
Fees, charges and other service income	(23,518)	(19,801)
Interest and investment income	(758)	(407)
Changes in fair value of investment properties	(41,593)	(4,816)
Income from council tax and non-domestic rates	(11,864)	(5,815)
Government grants and contributions	(32,533)	(52,675)
Gain on the disposal of assets	(380)	(572)
Total income	(110,646)	(84,086)
Surplus on the Provision of Services	(43,068)	(12,965)

8. Adjustments between accounting basis and funding basis under regulation

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

Transactions in 2020/21

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves	Unusable Reserves	Note
	£'000	£'000	£'000	£'000	£'000	
Adjustments primarily involving the Capital Adjustment Account						
Depreciation of non-current assets	2,914	0	0	2,914	(2,914)	16
Amortisation of intangible assets	7	0	0	7	(7)	18
Impairment of non-current assets	898	0	0	898	(898)	16
Movement in the fair value of investment property	(4,816)	0	0	(4,816)	4,816	17
Profit on disposal of non-current assets	(572)	0	0	(572)	572	20
Revenue expenditure funded from capital under statute	1,386	(1,016)	(370)	0	0	29
Statutory provision for the repayment of debt	(191)	0	0	(191)	191	29
Capital grants, contributions and income in relation to donated assets credited to the CI&ES	(3,971)	0	0	(3,971)	3,971	21
Adjustments primarily involving the Capital Receipts Reserve						
Proceeds from disposal of non-current assets	0	585	0	585	(585)	28
Financing of new capital expenditure	(5,198)	(557)	0	(5,755)	5,755	21
Adjustments primarily involving the Capital Grants Unapplied Reserve						
Capital grants credited to CI&ES for which expenditure has not yet been incurred	(1,411)	0	1,411	0	0	28
Capital loan repayments transferred to Capital Grants Unapplied reserve for future use	0	0	75	75	(75)	28
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits charged to the CI&ES	6,288	0	0	6,288	(6,288)	14
Employer's contribution to pension fund / directly to pensioners	(2,535)	0	0	(2,535)	2,535	14
Adjustments primarily involving the Collection Fund Adjustment Account						
Amount by which Council Tax and Business Rates income credited to the CI&ES is different from Council Tax and Business Rates income calculated for the year in accordance with statutory requirements.	4,943	0	0	4,943	(4,943)	29
Adjustments primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	25	0	0	25	(25)	29
Insertion of items not shown in the Comprehensive Income & Expenditure Statement						
Other adjustments	2	0	0	2	(2)	
	(2,231)	(988)	1,116	(2,103)	2,103	

Comparative Transactions for 2019/20

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

9. Taxation and Non-Specific Grant Income

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

Taxation / Non-Ringfenced Grants	Awarding Body	2019/20 £'000	2020/21 £'000
Council Tax Income	Council Taxpayers	7,391	7,733
New Homes' Bonus	MHCLG	3,788	3,561
Small Business Rate Relief	MHCLG	1,511	1,712
Transparency Code Set-Up	MHCLG	8	0
Rural Rate Relief	MHCLG	6	5
Supporting Small Businesses	MHCLG	8	6
Discretionary Relief	MHCLG	27	4
Retail Discount	MHCLG	416	0
Expanded Retail Discount	MHCLG	0	7,691
Nursery Relief	MHCLG	0	102
Council Tax Family Annex Grant	MHCLG	86	111
COVID Support Grants	MHCLG	0	1,571
COVID Sales, Fees & Charges Compensation Grant	MHCLG	0	2,165
Levy Surplus Allocation	MHCLG	8	0
Multiplier Cap	MHCLG	159	(30)
		13,408	24,631

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

Business Rates Income & Expenditure	2019/20 £'000	2020/21 £'000
Share of income transferred from Collection Fund	21,810	17,531
Tariff paid to government	(16,876)	(17,151)
Share of deficit on Collection Fund in the year	(58)	(1,102)
Levy payable to government in respect of growth in the year	(2,001)	(2,913)
Net Business Rates Income	2,875	(3,635)

Capital grants and contributions were received in the year as shown in the following table and includes £3.972M in donated assets under section 106 agreements (2019/20 NIL).

Capital Grants and Contributions	Awarding Body	2019/20 £'000	2020/21 £'000
Disabled Facilities Grant	MHCLG	1,212	1,369
Contributions to works on property	Tenants / Other developers	31	359
Plug-in Grant	Government	0	9
Contributions under s106 and CIL agreements / capital grants	Developers	1,755	5,460
		2,998	7,197

Other grants received in the year and included in the Net Cost of Services are shown in the following table.

Specific Grants included in the Net Cost of Services	Awarding Body	2019/20 £'000	2020/21 £'000
Housing Benefit Subsidy	DWP	22,158	20,021
Housing Benefit Administration Subsidy	DWP	230	228
Localising Council Tax Admin Subsidy	MHCLG	86	83
Discretionary Housing Payments	DWP	160	198
Business Rates Collection	MHCLG	188	186
Business Rates New Burden Admin Costs Grant	MHCLG	9	22
Council Tax New Burdens Admin Costs Grant	MHCLG	0	2
Council Tax Hardship Fund	MHCLG	0	574
COVID Civil Enforcement Grant	MHCLG	0	48
COVID Outbreak Management Fund	MHCLG	0	126
COVID Clinically Extremely Vulnerable	MHCLG	0	185
COVID Emergency Assistance	DEFRA	0	89
COVID Track & Trace Discretionary Grant	MHCLG	0	83
Track & Trace New Burdens Admin Grant	MHCLG	0	58
COVID Business Grants New Burdens Grants	MHCLG	0	413
COVID Business Grants - Additional Restrictions Grant	MHCLG	0	3,644
COVID Business Grants - OPS	MHCLG	0	413
COVID Business Grants - Discretionary Scheme	MHCLG	0	1,405
Disabled Facilities Grant	MHCLG	0	6
Individual Electoral Registration	Cabinet Office	15	10
Flexible Homelessness Support Grant	MHCLG	201	201
Preventing Homelessness Grant	MHCLG	32	0
Private Rented Sector Access Grant	MHCLG	100	100
Coled Weather and Protect Plus Grant	MHCLG	0	10
Rapid Rehousing Pathway Grant	MHCLG	49	0
Rough Sleepers Initiative Grant	MHCLG	45	103
Coronavirus Job Retention Scheme	HMRC	0	251
Brexit Grant	MHCLG	0	53
New Forest Mitigation	MHCLG	173	0
Transparency Code Set-Up	MHCLG	0	8
Self and Custom Build Register New Burden Grant	MHCLG	15	0
Neighbourhood Planning Grants	MHCLG	40	60
Brewery Improvement Grant	MHCLG	14	0
Brown Field Grant	MHCLG	3	0
		23,518	28,580

The Council also received grants of £38.9M during 2020/21 where it acted as an agent of central government in distributing Covid-19 grants to businesses and individuals. These grants are not included in the Comprehensive Income & Expenditure Statement and are detailed in the following table.

Grants not included in the Comprehensive Income & Expenditure Statement	Awarding Body	2019/20 £'000	2020/21 £'000
COVID-19 Business Support Grants	MHCLG	0	27,255
COVID-19 Local Restrictions Grants	MHCLG	0	6,961
COVID-19 Closed Business Lockdown Grants	MHCLG	0	4,644
COVID-19 Track & Trace Main Scheme Grant	MHCLG	0	52
		0	38,912

10. Special Expenses

Income from the special Council Tax Levy which applies in the Andover Town Council area was £344,500 in 2020/21 (£346,800 – 2019/20).

11. External Audit Costs

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

Class of Work	2019/20 £'000	2020/21 £'000
External Audit Fees	41	59
Certification of Grants Claim and Returns	20	10
Public Sector Audit Authority refund	(5)	0
	56	69

12. Members' Allowances

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

	2019/20 £'000	2020/21 £'000
Allowances	408	392
Expenses	11	0
Total Members' Allowances	419	392

13. Officers' Remuneration and Termination Benefits

The number of employees whose remuneration, including termination benefits but excluding pension contributions, was £50,000 or more in bands of £5,000 in 2020/21 was:-

Remuneration Band	2019/20 Number of Employees	2020/21 Number of Employees
£50,000 - £54,999	12	8
£55,000 - £59,999	3	8
£60,000 - £64,999	2	4
£65,000 - £69,999	4	0
£70,000 - £74,999	0	1
£75,000 - £79,999	3	1
£80,000 - £84,999	3	1
£85,000 - £89,999	3	8
£90,000 - £109,999	0	0
£110,000 - £114,999	2	1
£115,000 - £119,999	0	0
£120,000 - £124,999	0	1
£125,000 - £149,999	0	0
£150,000 - £154,999	1	0

The following table sets out the remuneration of senior officers in the year. A senior officer is described as 'a person who has responsibility for the management of the Council to the extent that the person has power to direct or control the major activities of the body, whether solely or collectively with other persons.' For the purposes of these accounts, Test Valley Borough Council has determined that senior officers are those included in the Management Team, which comprises the Chief Executive, Deputy Chief Executive and Heads of Service.

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

Post	Salary (Including Fees and Allowances)		Car Allowance and Other Expenses		Total Remuneration Excluding Pension Contributions		Pension Contributions		Total Remuneration Including Pension Contributions	
	19/20 £'000	20/21 £'000	19/20 £'000	20/21 £'000	19/20 £'000	20/21 £'000	19/20 £'000	20/21 £'000	19/20 £'000	20/21 £'000
Chief Executive - Roger Tetstall - Note (a)	150	25	8	2	158	27	21	3	179	30
Corporate Director / Chief Executive - Note (b)	107	117	6	5	113	122	17	21	130	143
Corporate Director / Deputy Chief Executive - Note (c)	107	108	5	6	112	114	17	19	129	133
Head of Community & Leisure	81	84	4	4	85	88	13	15	98	103
Head of Environmental Services	82	84	5	5	87	89	13	15	100	104
Head of Property & Asset Management	82	83	4	4	86	87	13	15	99	102
Head of Finance - Note (d)	82	45	5	3	87	48	13	8	100	56
Head of Housing & Environmental Health	81	83	4	4	85	87	13	15	98	102
Head of IT - Note (e)	64	83	3	4	67	87	10	15	77	102
Head of Legal & Democratic	74	82	4	4	78	86	3	14	81	100
Head of Planning & Building	81	83	4	4	85	87	13	15	98	102
Head of Planning Policy & Economic Development	74	79	4	4	78	83	12	14	90	97
Acting Head of Revenues - Benefits & Customer Services - Note (f)	11	0	0	0	11	0	1	0	12	0
Acting Head of Revenues - Local Taxation / Head of Revenues / Head of Finance & Revenues - Note (f)	68	83	3	4	71	87	11	15	82	102
Head of Strategy & Innovation - Note (g)	0	32	0	1	0	33	0	5	0	38

Note (a) – The total remuneration of the Chief Executive includes both a salary for work carried out as Head of Paid Service for the Council and also fees payable as the Local Returning Officer for elections held in the year. Payments as returning officer in 2020/21 were £800 (2019/20 £24,700). The costs for 2020/21 are for part of the year only as the postholder left the Council during the year.

Note (b) – During 2020/21, one of the Corporate Directors became the new Chief Executive. A restructure of senior posts was implemented. The changes relevant to this note are explained below for the affected posts.

Note (c) – The second Corporate Director became Deputy Chief Executive as part of the management restructure.

Note (d) – During 2020/21, the Head of Finance left the Council so the costs for 2020/21 are part year only.

Note (e) – The Council shared the costs of the Head of IT with Winchester City Council and received £57,600 as a contribution towards the employment costs of the postholder (2019/20 £42,600).

Note (f) – Partway through 2019/20, the Acting Head of Revenues – Benefits & Customer Services left and the Acting Head of Revenues – Local Taxation became the fulltime Head of Revenues. Whilst in the Acting Head of Revenues posts, those officers also had non-senior officer roles for the remainder of their time - the table above includes the costs for the two Senior Officer posts only. During 2020/21, as part of the management restructure and following the departure of the Head of Finance, the Head of Revenues became the Head of Finance & Revenues.

Note (g) – As part of the management restructure, a new post of Head of Strategy & Innovation, was created. The costs in the table are therefore for part of the year only.

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

Exit Package Band	Number of Redundancies		Number of Other Departures		Total Cost of Exit Packages by Band	
	2019/20	2020/21	2019/20	2020/21	2019/20 £'000	2020/21 £'000
£0 - £20,000	0	0	0	2	0	9
£20,001 - £40,000	0	0	0	0	0	0
Total	0	0	0	2	0	9

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

14. **Defined Benefit Pension Scheme**

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

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

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

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

<u>Comprehensive Income & Expenditure Statement</u>	2019/20 £'000	2020/21 £'000
<u>Cost of Services</u>		
Current Service Costs	5,048	5,065
Unfunded Benefits Paid Out	(193)	(192)
<u>Financing & Investment Income & Expenditure</u>		
Interest Cost	4,131	4,020
Interest Income	(2,814)	(2,605)
Total amount included in the Surplus on Provision of Services	6,172	6,288
<u>Other Comprehensive Income & Expenditure</u>		
Actuarial (gains) / losses due to change in financial assumptions	(4,195)	34,466
Actuarial gains due to demographic assumption changes	(4,273)	0
Experience losses on liabilities	5,742	(2,071)
Remeasurement (gains) / losses on assets	5,944	(26,006)
Total amount charged to the Comprehensive Income & Expenditure Statement	9,390	12,677
<u>Movement In Reserves Statement</u>		
Reversal of net charges made to the deficit on the provision of services in accordance with the Code	(6,172)	(6,288)
Actual employer's contributions payable	3,159	2,535
Total Amount included in the Movement in Reserves Statement (note 8)	(3,013)	(3,753)

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

The Council contributes to the Pension Fund at a common rate applicable to a group of employees which is set having regard to the assets and liabilities of the group as a whole.

The Council pre-paid employer contributions to the Pension Fund relating to Scheme years 2020/21, 2021/22 and 2022/23 as a single lump sum payment in April 2020. The total prepayment was £6.930M of which £2.366M related to Scheme year 2020/21 with a contribution rate of 18.1%.

In 2019/20 the contribution rate was 16.1% plus a fixed sum contribution of £1.012M.

It is forecast that pension contributions payable by the employer in 2021/22 in respect of unfunded liabilities will amount to £193,000.

The allowance for administration expenses included in the Current Service Cost is £42,000 (2019/20 £41,000).

Assets & Liabilities in relation to retirement benefits

The following tables show the Council's liabilities to the Pension Fund and its share of the Fund's assets at the year end. The net liability at 31st March 2021 was £75.404M (2019/20 - £62.791M).

Liabilities	2019/20 £'000	2020/21 £'000
Opening present value of funded liabilities	170,750	173,606
Current Service Cost	5,048	5,065
Interest Cost	4,052	3,956
Contributions by Participants	911	970
Actuarial (gain) / loss on liabilities due to change in financial assumptions	(4,161)	34,224
Actuarial gain on liabilities due to change in demographic assumptions	(4,218)	0
Experience losses on liabilities	6,044	(2,030)
Net benefits paid out	(4,820)	(4,248)
Past service cost	0	0
Closing present value of funded liabilities	173,606	211,543
Opening present value of unfunded liabilities	3,400	2,895
Interest Cost	79	64
Actuarial (gain) / loss on liabilities due to change in financial assumptions	(34)	242
Actuarial gains on liabilities due to change in demographic assumptions	(55)	0
Experience (gains) / losses on liabilities	(302)	(41)
Net benefits paid out	(193)	(192)
Closing present value of unfunded liabilities	2,895	2,968
Total present value of scheme liabilities	176,501	214,511

Assets	2019/20 £'000	2020/21 £'000
Opening fair value of assets	117,590	113,710
Interest income on assets	2,814	2,605
Actuarial gain / (loss) on assets	(5,944)	26,006
Contributions by the employer	3,159	2,535
Contributions by participants	911	970
Net benefits paid out	(4,820)	(4,248)
Closing fair value of assets	113,710	141,578

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

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

Assets	2019/20 £'000	2020/21 £'000
Interest income on assets	2,814	2,605
Actuarial gain / (loss) on assets	(5,944)	26,006
Actual return on assets	(3,130)	28,611

Basis for estimating assets and liabilities

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

The principal assumptions used by the actuary were:

	2019/20	2020/21
Discount rate for funded liabilities	2.3%	2.1%
Discount rate for unfunded liabilities	2.3%	2.1%
Rate of Inflation - CPI (funded)	2.0%	2.7%
Rate of Inflation - CPI (unfunded)	2.0%	2.7%
Rate of increase in salaries	3.0%	3.7%
Rate of increase in pensions in payment	2.0%	2.7%
Rate of increase in pensions in deferment	2.0%	2.7%
Mortality Assumptions		
Longevity at 65 for current pensioners (years)		
Men	23.0	23.1
Women	25.5	25.5

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

The proportions of total assets held in each asset type, shown below, reflect the proportions held by the Fund as a whole at 31st March 2021.

	2019/20	2020/21
Equities	52.7%	57.0%
Bonds	21.8%	17.3%
Property	7.3%	6.1%
Other	18.2%	19.6%
Total	100.0%	100.0%

The figures in this note are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31st March 2021 and the projected service cost for the year ending 31st March 2022 is set out in the following table. In each case, only the assumption mentioned is altered; all other assumptions remain the same.

Discount rate		
Adjustment to rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	207.31	215.77
% change in present value of total obligation	-2.0%	2.0%
Projected service cost (£M)	6.97	7.46
Approx % change in projected service cost	-3.4%	3.5%
Rate of increase in salaries		
Adjustment to salary increase rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	211.97	211.12
% change in present value of obligation	+0.2%	-0.2%
Projected service cost (£M)	7.21	7.21
Approx % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment		
Adjustment to pension rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	215.35	207.74
% change in present value of obligation	+1.8%	-1.8%
Projected service cost (£M)	7.46	6.97
Approx % change in projected service cost	+3.5%	-3.4%
Post retirement mortality assumptions (follow pattern of person one year older or younger)		
Adjustment to pension rate	-1 year	+1 year
Present value of total obligation (£M)	219.16	204.14
% change in present value of obligation	+3.6%	-3.5%
Projected service cost (£M)	7.51	6.92
Approx % change in projected service cost	+4.1%	-4.0%

15. Leases

Operating Leases

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

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

	2019/20	2020/21
	£'000	£'000
Receivable within one year	8,813	8,386
Receivable within one to five years	31,594	30,226
Receivable after five years	420,876	425,495
Total minimum lease rentals receivable	461,283	464,107

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

In 2020/21 the Council recognised income from contingent rents of £25,000 (2019/20 - £59,000).

16. Property, Plant & Equipment (PPE)

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

They are further classified into:

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

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

2020/21	Land & Buildings	Vehicles, Plant & Equipment	Infra structure	Community	Surplus Assets	Total
Cost / Valuation	£'000	£'000	£'000	£'000	£'000	£'000
Historic Cost b/f	70,052	7,984	902	11,370	559	90,867
Revaluation Increases shown in the Revaluation Reserve b/f	22,141	0	54	0	0	22,195
Revaluation Decreases shown in the CI&ES b/f	(8,104)	(35)	(16)	(923)	(107)	(9,185)
Additions	3,989	1,224	0	2,528	0	7,741
Revaluations	8,572	0	0	0	0	8,572
Disposals - Historic Cost	(16)	(3)	0	0	0	(19)
Disposals - Impairment Costs	6	0	0	0	0	6
Reclassification	(2,100)	0	0	0	0	(2,100)
Reverse depreciation on disposed / revalued assets	(3,102)	(512)	0	0	(32)	(3,646)
Impairments in year	(802)	0	0	0	(96)	(898)
Cost / Valuation at 31st March 2021	90,636	8,658	940	12,975	324	113,533
Depreciation						
Historic Cost Depreciation b/f	(1,130)	(4,639)	(208)	(874)	(25)	(6,876)
Depreciation on Revaluations b/f	(528)	0	(40)	0	0	(568)
Charge in year - Historic Cost	(1,335)	(900)	(28)	(183)	(6)	(2,452)
Charge in year - Revalued Amounts	(461)	0	(1)	0	0	(462)
Reverse depreciation on disposed / revalued assets	3,102	512	0	0	32	3,646
Depreciation at 31st March 2021	(352)	(5,027)	(277)	(1,057)	1	(6,712)
Net Book Value at 31st March 2021	90,284	3,631	663	11,918	325	106,821
Net Book Value at 31st March 2020	82,431	3,310	692	9,573	427	96,433

Comparative Information for 2019/20

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

Depreciation is charged based on the following assumed useful economic lives

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

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

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

	Cost	Depreciated Cost	Reval 2016/17	Reval 2017/18	Reval 2018/19	Reval 2019/20	Reval 2020/21	Total value of PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Land and Buildings	2,100	0	45	0	2,168	4,135	81,836	90,284
Vehicles, Plant & Equipment	1,269	2,362	0	0	0	0	0	3,631
Infrastructure	104	559	0	0	0	0	0	663
Community	9,729	2,189						11,918
Surplus Assets	0	0	0	0	0	0	325	325
Total PPE Assets	13,202	5,110	45	0	2,168	4,135	82,161	106,821

The Council carries out a rolling programme of valuations that ensures all PPE assets are valued at least once every five years. Revaluations in 2020/21 were carried out by the Council's internal RICS registered valuer and an external valuer, Carter Jonas. All revaluations were carried out as at 31st March 2021.

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

Surplus assets are measured at fair value.

At the 31st March 2021 contractual commitments on existing capital schemes totalled £7.942M (2019/20 £2.598M). The most significant item is £5.277M in relation to a property development.

17. Investment Properties

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

	2019/20 £'000	2020/21 £'000
Rental income from Investment Property	7,706	7,820
Investment Property direct costs	(333)	(295)
Net Investment Property income	7,373	7,525

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

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

	2019/20 £'000	2020/21 £'000
Balance at start of year	99,107	139,815
Purchase of new property	2,109	1,720
Expenditure on existing property	7	(6)
Expenditure on property under construction	966	126
Reclassification from Property, Plant & Equipment	0	2,100
Net changes in fair value of property	41,593	4,816
Disposals	(3,967)	0
Balance at end of year	139,815	148,571

Fair Value Hierarchy and Valuation Techniques

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

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

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

Investment property under construction is measured at cost.

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

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

18. Intangible Assets

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

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

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

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

	Software Licences £'000	Market Rights £'000	Total £'000
Cost or Valuation			
Cost / Fair Value b/f	811	57	868
Additions	19	0	19
Cost / Valuation at 31st March 2021	830	57	887
Amortisation			
Amortisation of Historic Cost b/f	(779)	0	(779)
Charge for the year	(7)	0	(7)
Amortisation at 31st March 2021	(786)	0	(786)
Net Book Value as at 31st March 2021	44	57	101
Net Book Value as at 31st March 2020	32	57	89

Comparative information for 2019/20

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

19. Heritage Assets

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

	Carrying Value	Fair Value	Carrying Value	Fair Value
	2019/20 £'000	2019/20 £'000	2020/21 £'000	2020/21 £'000
Included in Community Assets	352	527	362	537
Not included in the Balance Sheet	0	190	0	190
Total	352	717	362	727

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

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

20. Profit on Disposal of Assets

During the year, the Council made a net profit on the disposal of fixed assets of £572,000 (2019/20 net profit of £380,000). An analysis of this profit is shown in the following table.

	2019/20 £'000	2020/21 £'000
Right To Buy Contributions	353	567
Net profit on disposal of property, plant & equipment	27	5
Total Profit on Disposal of Assets	380	572

21. Capital Expenditure and Financing

Total Capital Expenditure to be financed in 2020/21 amounted to £7.794M. This can be analysed as expenditure on new assets (£5.629M), revenue expenditure funded from capital under statute (£2.040M) and expenditure classified as financial instruments (£125,000).

	2019/20 £'000	2020/21 £'000
Opening Capital Financing Requirement	5,222	6,585
Capital Expenditure		
Property, Plant & Equipment	3,077	7,741
Investment Property	3,082	1,840
Intangible Assets	11	19
Revenue Expenditure Funded from Capital Under Statute	1,481	2,040
Capital loan	22	125
Equity investment	125	0
Sources of Finance		
Capital Receipts	(632)	(1,647)
Government Grants and Other Contributions	(1,506)	(6,081)
Contributions from Revenue / Reserves	(4,110)	(4,037)
Movement in Minimum Revenue Provision	(187)	(191)
Closing Capital Financing Requirement	6,585	6,394

The movement in the Capital Financing Requirement represents the movement in the minimum revenue provision of £191,000.

The Property, Plant & Equipment line and the Government Grants and Other Contributions line above for 2020/21 include the assumed costs and contribution of donated assets valued at £3.972M (2019/20 £NIL) which the Council did not purchase but which were adopted as part of a S106 agreement.

The Government Grants and Other Contributions line shown in the previous table represents the total 'Capital Grants and Contributions' figure per the Comprehensive Income & Expenditure Statement less the net transfer to the capital grants unapplied reserve of £1.116M.

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

	2020/21 Long-Term Assets	2020/21 Revenue Expenditure Funded From Capital	2020/21 Total
	£'000	£'000	£'000
Community & Leisure	5,046	539	5,585
Environmental	1,225	0	1,225
Property & Asset Management	3,271	37	3,308
Housing & Env. Health	44	1,464	1,508
IT	14	0	14
Total Expenditure	9,600	2,040	11,640

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

22. Cash and Cash Equivalents

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

	2019/20 £'000	2020/21 £'000
Cash held by the Council	5	5
Bank Current Accounts	9,528	4,704
Short-term deposits	1,125	11,122
Total Cash & Cash Equivalents	10,658	15,831

23. Analysis of Debtors

	2019/20 £'000	2020/21		Net £'000
		Debtor £'000	Impairment Allowance £'000	
Central Government Bodies	1,637	292	0	292
Sundry Debtors	6,188	14,000	(1,541)	12,459
Pension Fund Prepayment	0	4,605	0	4,605
Collection Fund	269	7,859	(750)	7,109
Housing	7	63	(56)	7
Car Leasing and Loans	61	52	(17)	35
Total Debtors	8,162	26,871	(2,364)	24,507

The Sundry Debtors balances for 2020/21 includes £5.414M of S106 contributions balances (2019/20 £77,600) which are not included in the Comprehensive Income & Expenditure Statement, but are reflected in creditors (see note 24).

Included within car leasing and loans in the previous table are loans to employees for vehicle purchases. At 31st March 2021, £44,000 (2019/20 - £68,000) was outstanding.

The Collection Fund balances relate to Council Tax and Business Rates. There are two elements. The first is the Council's share of amounts due from taxpayers in respect of 2020/21. The second is the balance of the cash that is owed to the other preceptors on the Collection Fund in respect of the movements on the Collection Fund in the year. In 2019/20, there was a balance of cash owing to the other preceptors as shown in note 24, but in 2020/21, there is money owing from the other preceptors. For more details on the Collection Fund, please see pages 74 to 77.

The Collection Fund balances are shown in the following table.

	2019/20 £'000	2020/21 £'000
Council's share of Council Tax debtors	419	523
Council's share of Business Rates' debtors	446	1,204
Other preceptors' share of Business Rates movement	0	6,132
Total Collection Fund balances	865	7,859

24. Analysis of Creditors

	2019/20 £'000	2020/21 £'000
Sundry Creditors	9,271	9,357
Collection Fund	4,751	815
Central Government	2,517	11,731
Section 106 Balances	17,542	22,841
Compensated Absences Accrual	171	196
Total Creditors	34,252	44,940

The Collection Fund balances relate to Council Tax and Business Rates. There are two elements. The first is the Council's share of payments from taxpayers in respect of 2021/22 that have been received before the end of 2020/21. The second is the balance of the cash that is owed to the other preceptors on the Collection Fund in respect of the movements on the Collection Fund in the year. In 2019/20, there was a balance of cash owing to the other preceptors, but in 2020/21, there is money owing from the other preceptors, as shown in note 23. For more details on the Collection Fund, please see pages 74 to 77.

The Collection Fund balances are shown in the following table.

	2019/20 £'000	2020/21 £'000
Council's share of Council Tax receipts in advance	104	123
Other preceptors' share of Council Tax movement	1,007	468
Council's share of Business Rates' receipts in advance	198	224
Other preceptors' share of Business Rates movement	3,442	0
Total Collection Fund balances	4,751	815

The balances due to Central Government are shown in the following table.

	2019/20 £'000	2020/21 £'000
PAYE / NI / VAT	375	26
Housing Benefit Subsidy	0	559
NDR levy	2,001	2,913
NDR S31 Grants 2019/20	59	59
NDR S31 Grants 2020/21	0	7,741
NDR Transitional Payment Protection	82	433
Total Central Government balances	2,517	11,731

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

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

	2019/20 £'000	2020/21 £'000
Open Spaces / Recreation	8,186	12,915
Highways / Cycle Routes / Green Travel	3,360	3,613
Affordable Housing	1,591	1,670
Education & Skills' Development	212	189
Public Art	297	413
Community Facilities	3,555	3,967
Other	341	74
Total Section 106 balances	17,542	22,841

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

25. Provisions

The following table details the movement in the provisions.

	2019/20 £'000	2020/21 £'000
Balance at start of year	2,460	3,151
Amounts charged to the provision	(433)	(593)
Increase / (decrease) in provision	1,124	(448)
Balance at end of year	3,151	2,110

The Council's share of backdated business rates appeals that are expected to be awarded in future years is £2.110M at the end of the year (2019/20 £3.151M). It is not possible to determine when appeals will be settled; therefore the whole balance is shown in current liabilities.

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

The provision in respect of outstanding appeals from the 2010 list has been prepared in a similar manner to previous years. The calculation is based on a weighted average of resolved appeals from that list, which is then extrapolated across the remaining appeals outstanding at 31st March 2021. £574,000 of the total provision relates to outstanding appeals against the 2010 list.

Alongside the new rating list, the Valuation Office introduced a new method for businesses to appeal against their rateable value from April 2017; this is known as 'Check, Challenge, Appeal'.

The number of checks, challenges and appeals at both a national and local level remains too low to replicate the methodology applied to outstanding appeals from the 2010 list. However, it is considered that there sufficient closed cases to extrapolate a weighted average reduction in rateable value to which a risk factor can be applied to calculate a provision. This has resulted in an overall reduction in the provision required for years since 2017 and led to a reduction in the Council's share of the overall provision.

26. Trust Funds

The Council operates a number of trusts for civic purposes. The balances at the end of the year were £66,000 (2019/20 - £63,000). The most significant balance is in respect of the Romsey Walk and Pleasure Ground - £58,100 (2019/20 - £57,900).

27. Notes to the Cash Flow Statement

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

Net Cash inflow from Operating Activities includes:	2019/20 £'000	2020/21 £'000
Interest received	758	407
Interest paid	(164)	(160)

Other Non-Cash items	2019/20 £'000	2020/21 £'000
Movement in Bad Debt Allowance	(50)	391
Movement in provisions	691	(1,041)
Donated assets under s106 agreements	0	(3,971)
Other non-cash items	(16)	107
Other Non-Cash items	625	(4,514)

Other income / (payments) for financing activities	2019/20 £'000	2020/21 £'000
Movement in Council Tax debtors	(42)	(104)
Movement in amounts owed to Council Tax preceptors	116	(540)
Movement in Business Rates debtors	2	(758)
Movement in amounts owed to Business Rates preceptors	874	(9,574)
Other income / (payments) for financing activities	950	(10,976)

28. Usable Reserves

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

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

Reserve	2019/20 £'000	2020/21 £'000
General Fund Balance	2,604	2,604
Revenue & Earmarked Reserves	24,146	34,880
Capital Receipts Reserve	11,805	10,817
Capital Grants Unapplied Reserve	4,956	6,072
Total Usable Reserves	43,511	54,373

General Fund Balance

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

Revenue & Earmarked Reserves

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

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

	Balance as at 31/03/2019	Transfers In 2019/20	Transfers Out 2019/20	Balance as at 31/03/2020	Transfers In 2020/21	Transfers Out 2020/21	Balance as at 31/03/2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income Equalisation Reserve	300	0	0	300	0	0	300
Budget Equalisation Reserve	682	0	0	682	0	0	682
Investment Equalisation Reserve	250	0	0	250	0	0	250
Pension Equalisation Reserve	100	0	(100)	0	500	0	500
Collection Fund Equalisation Reserve	3,616	0	(61)	3,555	6,564	(864)	9,255
Capacity Building Reserve	389	0	(133)	256	0	(26)	230
Special Projects Reserve	339	0	(94)	245	0	(18)	227
New Homes' Bonus Reserve	3,721	3,788	(1,109)	6,400	3,561	(1,586)	8,375
Asset Management Plan	2,954	2,428	(2,007)	3,375	2,522	(2,675)	3,222
Chantry Centre Planned Maintenance Reserve	1,349	446	(346)	1,449	374	(598)	1,225
Budget Carry Forward Reserve	308	94	(295)	107	111	(94)	124
Local Authority Business Growth Incentive	2	0	0	2	0	0	2
Borough Election Reserve	105	35	(140)	0	35	0	35
All Risks Self-Insurance Reserve	96	0	(2)	94	0	(1)	93
Business Support (Floods)	147	0	0	147	0	0	147
Local Development Framework Reserve	524	103	(31)	596	38	(60)	574
Waste Performance & Efficiency Grant	17	0	(4)	13	0	(11)	2
Benefit Reform Reserve	78	0	0	78	0	0	78
Developer contribution for future years' maintenance costs	5,304	505	(537)	5,272	1,855	(586)	6,541
Enterprise and Innovation Reserve	330	0	(15)	315	0	0	315
Valley Housing Ltd Reserve	250	0	0	250	0	0	250
Housing Reserve	362	234	(150)	446	301	(264)	483
Private Rented Sector Access Reserve	115	0	(1)	114	0	(71)	43
Rejuvenation Projects Reserve	0	0	0	0	1,258	(123)	1,135
Brexit Grants Reserve	0	0	0	0	52	0	52
COVID Grants Reserve	0	0	0	0	564	0	564
Other Earmarked Reserves	218	0	(18)	200	0	(24)	176
Total Earmarked Revenue Reserves	21,556	7,633	(5,043)	24,146	17,735	(7,001)	34,880

The property insurance policy has an excess of £5,000 per claim. The Council self-insures 'All Risks' items for which an earmarked reserve of £93,000 (2019/20 £94,000) is set aside. In the case of car loans, the risk of default or death of the borrower is on a self-insured basis.

Capital Receipts Reserve

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

	2019/20		2020/21	
	£'000	£'000	£'000	£'000
Balance at start of year		6,022		11,805
Capital Receipts				
Sale of Assets	6,062		18	
Right to Buy Receipts	353		567	
		6,415		585
Capital Expenditure				
Purchase of Assets	(119)		(557)	
Revenue Expenditure funded from Capital Under Statute	(513)		(1,016)	
		(632)		(1,573)
Balance at end of year		11,805		10,817

Capital Grants Unapplied Reserve

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

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

	2019/20		2020/21	
	£'000	£'000	£'000	£'000
Balance at start of year		3,464		4,956
Capital Grants Received:				
Disabled Facilities Grants	405		715	
Community Infrastructure Levy	1,270		696	
Capital Loan Repayment	0		75	
		1,675		1,486
Capital Expenditure				
Revenue Expenditure funded from Capital Under Statute	(183)		(370)	
		(183)		(370)
Balance at end of year		4,956		6,072

29. Unusable Reserves

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

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

Reserve	2019/20 £'000	2020/21 £'000
Revaluation Reserve	21,638	29,749
Capital Adjustment Account	209,008	220,293
Deferred Credits	7	7
Collection Fund Adjustment Account	(771)	(5,714)
Accumulated Absences Account	(171)	(196)
Pension Fund Reserve	(62,791)	(72,933)
Total Unusable Reserves	166,920	171,206

Revaluation Reserve

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

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

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

	2019/20		2020/21	
	£'000	£'000	£'000	£'000
Balance at start of year		19,996		21,638
Upward revaluations of assets in the year	2,076		8,572	
Depreciation of previous years' revaluation gains	(434)		(461)	
		1,642		8,111
Balance at end of year		21,638		29,749

Capital Adjustment Account

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

	2019/20		2020/21	
	£'000	£'000	£'000	£'000
Balance at start of year		172,897		209,008
Transfer from Revaluation Reserve	434		461	
Revaluation gains / (losses) on Investment Property	41,593		4,816	
Assets purchased in the year	4,745		9,600	
Capital loan advanced in year	22		124	
Statutory provision for the repayment of debt	187		191	
Transfer from Capital Receipts Reserve	513		1,016	
Transfer from Capital Grants Unapplied Reserve	183		370	
		47,677		16,578
Disposal of assets	(3,985)		(13)	
Repayment of capital loan	(2,050)		(75)	
Depreciation of non-current assets	(2,801)		(2,914)	
Amortisation of intangible assets	(43)		(7)	
Impairments	(1,991)		(898)	
Revenue expenditure funded from capital	(696)		(1,386)	
		(11,566)		(5,293)
Balance at end of year		209,008		220,293

Deferred Credits

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

Collection Fund Adjustment Account

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

This account shows the Council's share of the accumulated difference between the estimated and actual returns in the Collection Fund (see pages 74 to 77).

The surplus on the Council Tax part of the Collection Fund at 31st March 2021 was £1.988M, of which the Council's share is £209,000. The deficit in respect of business rates was £14.298M of which the Council's share was £5.719M.

The Council is entitled to retain 100% of the business rates collected from Renewable Energy schemes within the Borough. However, any variance to the original budget cannot be treated as income until later years and is therefore transferred to the Collection Fund Adjustment Account. The amount retained at 31st March 2021 was £204,000 higher than the actual income from Renewable Energy Schemes and this will be returned from the General Fund in 2021/22.

	2019/20 £'000	2020/21 £'000
Share of Council Tax Surplus b/f	211	219
Movement in the year	8	(10)
Share of Council Tax Surplus c/f	219	209
Share of Business Rates' Deficit b/f	(913)	(987)
Movement in the year	(74)	(4,732)
Share of Business Rates' Surplus / (Deficit) c/f	(987)	(5,719)
Renewable Energy Business Rates retained b/f	3	(3)
Movement in year	(6)	(201)
Renewable Energy Business Rates retained c/f	(3)	(204)
Balance at end of year	(771)	(5,714)

Accumulated Absences Account

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

Pension Fund Reserve

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

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

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

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

30. Financial Instruments

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

During the year all investment funds were managed internally.

Financial Instrument Balances

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

	31st March 2020		31st March 2021	
	Current £'000	Long-Term £'000	Current £'000	Long-Term £'000
Financial Assets:				
<u>Investments</u>				
Fair Value through Profit or Loss	0	375	0	375
Amortised Cost	56,346	5,029	50,450	5,028
<u>Debtors</u>				
Amortised cost - Sundry Debtors	7,081	805	13,709	724
Amortised cost - Housing	63	0	63	0
Amortised cost - Car Leasing and Loans	78	0	52	0
Financial Liabilities:				
<u>Creditors</u>				
Amortised cost - Borrowings	(261)	(7,018)	(264)	(6,784)
Amortised cost - Sundry Creditors	(5,371)	0	(5,916)	0

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

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

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

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

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

The fair values are calculated as follows:

Financial assets	31st March 2020		31st March 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Cash	5	5	5	5
Cash Equivalents	10,653	10,653	15,826	15,826
Deposits with banks and building societies	30,228	30,228	30,424	30,424
Short term Loans and Receivables	26,118	26,118	20,026	20,069
Long term Loans and Receivables	5,029	5,713	5,028	5,771
Total	72,033	72,717	71,309	72,095

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31st March 2021) attributable to the commitment to receive interest above market rates.

Financial liabilities	31st March 2020		31st March 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Borrowings - PWLB debt	(7,279)	(7,229)	(7,048)	(7,333)
Total	(7,279)	(7,229)	(7,048)	(7,333)

The fair value of the liabilities is higher than the carrying amount because the Council's loans are fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31st March 2021) arising from a commitment to pay interest to lenders above current market rates.

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

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

Items of income, expense, gains or losses

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

	2019/20 £'000	2020/21 £'000
Interest received	758	407
Interest paid	(164)	(160)

31. Nature and Extent of Risks Arising From Financial Instruments

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

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

Overall procedures for managing risk

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

The Treasury Management Strategy and Annual Investment Strategy was approved by Council in February 2020 and is available on the Council's website.

Credit Risk

Treasury Investments

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

The risk is minimised through the policy of the Council to place deposits only with a limited number of institutions that meet strict criteria as defined in the Council's Treasury Management Strategy and Annual Investment Strategy. The Council also had a policy through the majority of the year of limiting deposits with institutions to a maximum of £30M.

The Council's maximum exposure to credit risk in relation to its investments cannot be assessed generally as the risk of any financial institution failing to make interest payments or repay the principal sum will be specific to each individual institution. With regard to deposits with banks and building societies, the Council has no recent experience of defaults. Although a risk of irrecoverability applies to all of the Council's deposits, there was no evidence at 31st March 2021 that this was likely to crystallise and the credit impairment losses have been assessed as nil.

The following table summarises the credit risk of the Council's investment portfolio at 31st March 2021 by credit rating.

Credit rating	£'000s
AA-	25,054
A+	64
A	30,360
Shares in unlisted company	375
Total	55,853

Trade Receivables

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

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

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

	Amount at 31st March 2021	Historical Experience of Default	Historical Experience Adjusted for Market Conditions	Estimated Maximum Exposure to Default
	£'000	%	%	£'000
Long Term Debtors	724	0.00	0.00	0
Sundry Debtors	13,709	11.24	11.24	1,541
Housing Debtors	63	88.89	88.89	56
Other Debtors	52	32.69	32.69	17
Total	14,548			1,614

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

	31st March 2020 £'000	31st March 2021 £'000
Less than three months	1,405	6,962
Three months to one year	1,207	1,234
More than one year	218	780
Total	2,830	8,976

Liquidity Risk

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

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

	2019/20 £'000	2020/21 £'000
Less than one year	230	235
Between one and five years	972	994
Between five and ten years	1,343	1,373
Between ten and fifteen years	1,501	1,535
Between fifteen and twenty years	1,678	1,716
Between twenty and twenty five years	1,524	1,165
Total	7,248	7,018

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

Market Risk

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

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

Foreign Exchange Risk

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

32. Related Party Transactions

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

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

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

During 2020/21 £321,500 (2019/20 £313/900) in grants was paid to voluntary organisations in which four Councillors were officially appointed. The grants were made with proper consideration of declarations of interest. The relevant Members did

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

33. Group Accounts

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

Group accounts have not been prepared for the year ended 31st March 2021 as the value of transactions between Test Valley Borough Council and Valley Housing Limited is not considered to be material.

34. Contingent Assets

As part of the Large Scale Voluntary Transfer Agreement (LSVT), the Council is entitled to receive income generated from Right-to-Buy sales of former Council properties. In 2020/21 the income generated from this source was £567,000 (2019/20 £353,000). The generation of this income is outside of the Council's control and is not quantifiable for future years.

35. Contingent Liabilities

Large Scale Voluntary Transfer (LSVT)

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

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

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

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

Municipal Mutual Insurance Ltd – Scheme of Arrangement

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

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

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

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

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

36. Events After the Balance Sheet Date

There are no events after the balance sheet date which would have a material impact on the accounts for 2020/21.

37. Going Concern

The going concern assumption in the Accounting Code of Practice is based on the expectation that a local authority's services will continue to operate for the foreseeable future. The Covid-19 pandemic has had a significant impact on the Council's financial position during 2020/21, but, following emergency funding and financial support given by the Government, there is no risk to the Council's going concern assessment.

Throughout the 2020/21 financial year, work was undertaken on a monthly basis to assess the impact of spending pressures and reductions in planned income levels caused by Covid-19. This helped to determine the estimated overall impact on the Council's finances for 2020/21 and also for the budget for 2021/22, and this monitoring work is continuing in 2021/22.

The Council's budget reported to Council on 26th February 2021 anticipated additional net costs and loss of income due to Covid-19 of £2.544M. Additional government support was estimated to be £1.494M, resulting in a net pressure due to Covid-19 of £1.050M. After taking account of additional growth from business rates, the budget was balanced using just a small draw from equalisation reserves of £142,000.

In a worst case scenario where the Council's finances are more severely impacted, then as a last resort, the Council has four equalisation reserves and the New Homes Bonus Reserve which are forecast to total £13.669M at the end of March 2022, providing the financial headroom to manage its affairs and resources effectively over the medium term.

A cash flow forecast has been undertaken, using all currently known or expected transactions that will take place over the next year to the end of March 2023. In summary, this forecast clearly establishes that:

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

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

38. Date Accounts Authorised for Issue

The pre-audited Statement of Accounts was authorised for issue by the Head of Finance & Revenues on 30th June 2021.

The audited Statement of Accounts was approved by the General Purposes Committee on 12th January 2022.

THE COLLECTION FUND

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

INCOME AND EXPENDITURE ACCOUNT				
	2019/20		2020/21	
	£'000	£'000	£'000	£'000
<u>COUNCIL TAX</u>				
Opening Balance		1,938		2,043
<u>Income</u> Council Tax		84,058		88,815
<u>Expenditure</u>				
Hampshire County Council	60,565		64,127	
Hampshire Fire Authority	3,315		3,443	
Hampshire Police and Crime Commissioner	9,865		10,542	
Test Valley Borough Council	7,271		7,644	
Parishes	1,598		1,717	
Payments to preceptors in respect of previous surpluses	1,015		923	
Increase in Bad Debt Allowance	324		474	
Total Expenditure		83,953		88,870
Council Tax Surplus / (Deficit) For The Year		105		(55)
Closing Balance		2,043		1,988
<u>BUSINESS RATES</u>				
Opening Balance		(2,283)		(2,468)
<u>Income</u> Business Ratepayers		56,136		39,205
<u>Expenditure</u>				
Central Government	26,815		27,560	
Hampshire County Council	4,827		4,961	
Hampshire Fire Authority	536		551	
Test Valley Borough Council	21,452		22,048	
Payments preceptors in respect of forecast deficit	(144)		(2,756)	
Increase/(reduction) in provision for backdated appeals	1,727		(2,603)	
Transitional Protection Payments due to / (from) Central Govt	62		473	
Increase in Bad Debt Allowance	427		400	
Cost of Collection Allowance	188		186	
Amount retained in respect of renewable energy schemes	431		215	
Total Expenditure		56,321		51,035
Business Rates' Surplus / (Deficit) For The Year		(185)		(11,830)
Closing Balance		(2,468)		(14,298)
COLLECTION FUND SUMMARY				
Deficit for the year		(80)		(11,885)
Balance at the start of the year		(345)		(425)
Deficit at the end of year		(425)		(12,310)

NOTES TO THE COLLECTION FUND

Business Rates

The starting point for the income from Business Ratepayers is the Rateable Value of each hereditament multiplied by the (national) Business Rating Multiplier for the year, which was 51.2p in 2020/21.

Net income is derived following adjustments in respect of:

- Transitional Relief
- Mandatory and Discretionary Relief in respect of charities and kindred organisations
- Small Business Relief
- Rural Rate Relief
- Supporting Small Businesses Reliefs
- Covid-19 reliefs for Retail, Hospitality and Leisure discount and Nursery discount and
- Bad debts

The total non-domestic rateable value at the 31st March 2021 was £138,772,578.

The Collection Fund balance on the 31st March 2021 in respect of Non Domestic Rates (NDR) was a deficit of £14.298M which is included within the Balance Sheet. Amounts in respect of Test Valley Borough Council are contained within the reserves section of the Balance Sheet; amounts due from the other major preceptors are shown within debtors.

This deficit will be shared amongst the major preceptors on a fixed apportionment basis (Central government 50%, Test Valley Borough Council 40%, Hampshire County Council 9% and Hampshire Fire and Rescue Authority 1%) in 2021/22 and 2022/23.

The payments to the major preceptors in 2020/21 are shown in the following table.

Non Domestic Rates Collection Fund				
2019/20	2020/21			
Total	Major Preceptors	Precept	Share of 2019/20 Forecast Deficit	Total
£'000		£'000	£'000	£'000
26,743	Central Government	27,560	(1,378)	26,182
4,814	Hampshire County Council	4,961	(248)	4,713
535	Hampshire Fire Authority	551	(28)	523
21,394	Test Valley Borough Council	22,048	(1,102)	20,946
53,486	Total	55,120	(2,756)	52,364

Council Tax

The income from Council Tax is directly linked to the banding of properties based on their valuations. The number of chargeable dwellings in each valuation band was converted to an equivalent number of Band D dwellings, which was used to calculate the Council Tax base of 49,855 for 2020/21.

The Collection Fund balance on the 31st March 2021 in respect of Council Tax was a surplus of £1.988M which is included within the Balance Sheet. Amounts in respect of Test Valley Borough Council are contained within the reserves section of the Balance Sheet; amounts due to the other major preceptors are shown within creditors.

This surplus will be shared amongst the major preceptors in proportion to their respective precepts (Test Valley's share is 10.70% for 2020/21 and 10.37% for 2021/22) and will be included in the Council Tax calculations for 2021/22 and 2022/23.

The payments to the major preceptors in 2020/21 are shown in the following table.

Council Tax Collection Fund				
2019/20	2020/21			
	Major Preceptors	Precept	Share of 2019/20 Surplus	Total
£'000		£'000	£'000	£'000
61,316	Hampshire County Council	64,127	677	64,804
3,356	Hampshire Fire Authority	3,443	37	3,480
9,976	Hampshire Police & Crime Commissioner	10,542	110	10,652
7,383	Test Valley Borough Council	7,644	99	7,743
82,031	Total	85,756	923	86,679

COUNCIL TAX BASE - ANALYSIS OF PROPERTIES

BAND	A*	A	B	C	D	E	F	G	H	TOTAL
Full Charge	0	1,293	4,964	10,180	7,950	6,888	4,235	3,203	449	39,162
10% Discount	0	0	0	0	0	0	0	0	0	0
25% Discount	0	1,382	4,315	4,494	2,647	1,580	723	524	49	15,714
50% Discount	0	140	16	18	9	16	15	19	5	238
100% Exempt	0	32	61	66	54	26	15	15	0	269
50% Premium	0	9	11	9	3	2	3	7	0	44
Net Adjustment for Properties Charged at a Lower Band	1	30	43	0	(1)	(42)	4	(22)	(13)	0
Total Number of Properties	1	2,886	9,410	14,767	10,662	8,470	4,995	3,746	490	55,427
Chargeable Number of Properties	1	2,770	9,321	14,186	10,388	8,302	4,921	3,667	476	54,032
Equivalent Number of Properties after discounts, exemptions, premiums and disabled relief	1	2,327	8,179	12,992	9,669	7,874	4,719	3,515	461	49,738
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
Band D Equivalents	1	1,551	6,361	11,548	9,669	9,624	6,817	5,858	923	52,352
Provision for Council Tax Support										(2,826)
Provision for Bad Debts										(328)
Crown Contributions										657
Total Band D Equivalents										49,855

GLOSSARY OF TERMS

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

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

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

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

Opinion

We have audited the financial statements of Test Valley Borough Council for the year ended 31 March 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 38, and the Expenditure & Funding Analysis.
- Collection Fund and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Test Valley Borough Council as at 31 March 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 (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Head of Finance & Revenues' 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 twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Head of Finance & Revenues 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 Head of Finance & Revenues is responsible for the other information contained within the Statement of Accounts 2020/21.

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 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 Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- 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 Head of Finance & Revenues

As explained more fully in the Statement of Responsibilities for the Statement of Accounts 2020/21 set out on page 11, the Head of Finance & Revenues is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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 Head of Finance & Revenues is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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.

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 council and determined that the most significant are:

- 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),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the council 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 Test Valley Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit, those charged with governance and the Monitoring Officer, 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 council's committee minutes, and through the inspection of employee handbooks 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 council'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 manipulation of reported financial performance through 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 Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine. We also tested a sample of REFCUS items to confirm they were appropriately classified.

To address our fraud risk of management override of controls, in common with all audits under ISAs (UK), we perform specific procedures to respond to the risk. We tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business

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 (C&AG) in April 2021, as to whether Test Valley Borough 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 Test Valley Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 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, Test Valley Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 our work on value for money arrangements.

Use of our report

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

Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
13 January 2022
Test Valley Borough Council

Annual Governance Statement 2020/21

Scope of responsibility

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

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

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

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

The purpose of the governance framework

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

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

The governance framework that has been in place at the Council for the year ended 31 March 2021 is explained in the following section along with changes

that have been implemented in the year. It will continue to be developed during the coming year.

The impact of Covid19 on the governance framework

The Council's governance arrangements have been significantly impacted by the coronavirus pandemic during 2020/21. Response and Recovery Plans have been established and the Council has put in place robust and effective measures for managing these impacts including:

- Taking an active role in the Hampshire and Isle of Wight Local Resilience Forum (LRF) contributing to the wider LRF response and recovery programmes.
- Establishing clear roles and responsibilities with the Council's Cabinet who are the recovery sponsors and the Management Team meeting specifically as a response and recovery programme group to review and guide the delivery of the action plans derived from the strategic priorities set out in the recovery plan.
- Continuing to support community response and recovery through funding and bringing together community partners on a regular basis.
- Working with its strategic partners to support testing and vaccination centres which are now in operation within the borough.
- Identifying priorities and work streams and fully assessing and regularly reviewing the impacts and mitigating actions.

The governance framework

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

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

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

- A single strategic partnership for the Borough is in place called the Test Valley Partnership. It brings together the key partner agencies from across the public and voluntary and community sector. It meets twice a

year and provides a place in which the key strategic issues facing the borough can be discussed, joint work developed and statutory duties met. Throughout the pandemic, the Test Valley Partnership has continued to meet and has provided an essential role in bringing together community response. This has enabled strategic partners to work together to focus on future recovery. A full meeting of the partnership took place in October 2020 to review lessons learned from the pandemic so far and to discuss longer term systematic issues requiring a partnership response.

- The Council has a clear vision of its purpose and desired outcomes for the short, medium and long term. These are encapsulated in its Corporate Plan through a range of corporate and service strategies and through four areas of focus as part of the Council's commitment to the Test Valley Partnership. There has been considerable consultation and stakeholder involvement in the development and progression of these plans and strategies and they are made available to the public through a variety of means including the Council's website and Test Valley News.
- The Council has published a Corporate Plan for 2019 / 2023 "Growing Our Potential" which was approved by the Council on 10/04/19. It has four main aims and an action plan detailing how these aims will be delivered. It is supported by a performance management framework (including performance indicators) to measure progress. In developing the plan previous priorities were reviewed, extensive consultation was undertaken with local people and elected Councillors whilst also considering external influences on the borough such as government policy. The Council has a longstanding strategic commitment to work with its communities collaboratively. At the centre of this is the democratic role elected councillors play in bringing communities together to ensure inclusivity when undertaking local action planning and priority setting. The Council's Member and Community Development Group, chaired by the Leader of the Council, supports community councillors to engage more effectively with local residents and communities. This has enabled the Council to develop innovative practice such as being one of only three Local Authorities in the country to be part of the Innovation in Democracy Programme in 2019/20 in which, a Citizens Assembly was held in Romsey focused on the priorities for the South of Town Centre Masterplan. The Council is taking the learning from this programme and developing further opportunities to embed deliberative democracy activities as part of its onward programme of engagement and priority setting. The Council formally reviews its progress and performance against its corporate priorities through an Annual Corporate Action Plan Report
<https://www.testvalley.gov.uk/aboutyourcouncil/corporatedirection/corporate-plan-for-2019-to-2023> which is presented to Overview and Scrutiny Committee (OSCOM) and the Cabinet.
- Members of OSCOM undertake task and finish panel reviews. Once an area for review has been identified, the lead member/chairman of the panel presents the draft scoping document for the review to the full committee for consideration. A full report is then subsequently presented

to OSCOM once the review has been completed or reached an appropriate stage. This process has ensured more effective and focused reviews and a clear line of responsibility to the main committee. In addition, there are standing panels; the Audit Panel and the Budget Panel which meet regularly throughout the year and cover scrutiny of all the financial activities of the Council. The standing Panels report to OSCOM on a regular basis and bring any issues of concern to the attention of the Committee.

- The Council has in place a Medium Term Financial Strategy, updated annually, which supports the aims of the Corporate Plan. The Medium Term Financial Strategy has been materially affected by the impacts of the coronavirus. Additional costs have been incurred and major income streams impacted by the effects of the restrictions put in place. Government funding in the form of support grants; the sales, fees & charges scheme; furlough; and new burdens' funding, has been provided; however, this falls considerably short of the actual budget impact on the Council in the year.
- The quality and value for money of services provided to users is measured through the Authority's performance management system. This includes the measurement and review of performance against national and local performance indicators and actions taken to address areas for improvement. Performance is monitored regularly throughout the year by Performance Boards.
- The roles of the Cabinet, OSCOM, and other committees of the Council as well as specific roles assigned to the Leader, Deputy Leader, Portfolio Holders and senior officers of the Council are defined and documented within the Council's Constitution. The Constitution also clearly identifies the powers, duties and responsibilities delegated to the Deputy Leader, Portfolio Holders and Officers, and includes rules for how Council and committee meetings should operate and the relationship between Members and Officers. Arrangements have been put in place to hold meetings virtually in accordance with legislation during the Covid19 pandemic to continue to enable Members to fully engage in decision making and allow for public participation. A remote Overview and Scrutiny Committee away day was also held and Members have been able, remotely, to continue to take part in other engagement forums such as Romsey Vision and Andover Future, both of which play a key role in the Council's projects and forward plans.
- In June 2020 the Council appointed a new Chief Executive. As incoming Chief Executive he has:
 - Increased resourcing of the Council's strategic objectives relating to town centre regeneration, climate change and the Local Plan

- by establishing 3 new posts funded from a management restructure.
 - Deleted the existing posts of Corporate Director and Head of Finance from the establishment and combined the roles of Head of Finance and Head of Revenues.
 - Disbanded the Senior Management Team (SMT) which was previously made up of the Chief Executive and two Corporate Directors. This meant that the Management Team that is made up of the Council's Heads of Service, Deputy Chief Executive and Chief Executive, has become the single management team of the authority. This has created efficiencies in terms of less double handling of issues and at the same time is developing the Management Team and its strategic capacity.
 - Established a new Service under a Head of Strategy and Innovation. This has enabled the Chief Executive and new Deputy Chief Executive to be relieved of departmental responsibility providing Management Team with greater pace and focus on functions which drive organisational performance, innovation and programme governance, clearly aligned to council priorities and values.
 - Created a forum (meeting 3 to 4 times a year) for senior managers who work directly to the Heads of Service to enable them to play a role in developing new ways of working within the council.
- The conduct of Members and Officers is regulated by separate codes of conduct within the Council's Constitution. The Council's General Purposes Committee together with the General Purposes Employment Appeals and Ethics Sub-Committee promote high standards of conduct by Members and consider complaints made against Members. A comprehensive set of Human Resources policies ensures compliance with employment legislation and promotes good personnel practices. These include disciplinary and capability processes to deal with conduct or performance which is unacceptable. These policies and procedures are regularly reviewed and revised.
- The conduct of day to day Council business is regulated through policies and procedures such as Contract Standing Orders and Financial Regulations. These accord with good professional practice and were revised in 2017. The delegations to Members and Officers are kept continually under review and revised as appropriate.
- Elected members and all officers are aware of their obligations under equality legislation, as well as the standards of behaviour and language which are expected from representatives and employees of the Council. Ongoing training is provided for both Members and officers. Equality impact assessments are built into the Council's decision-making process. The Council has reviewed its corporate equalities objectives, alongside its duties under the new gender pay gap publication requirements. The Council continues to deliver training on the Equality Act 2010 to new members of staff and to Members. The Council has published information that demonstrates compliance with the Equality Duty as defined by the Equality Act 2010 on its website.

<https://www.testvalley.gov.uk/aboutyourcouncil/corporatedirection/equality---diversity/equalities>)

- The Council has established Disability Focus Groups that contributed towards the development of the new Corporate Plan. The groups are helping the Council and its partners on an ongoing basis.
- The Council is a statutory partner with regards safeguarding its residents of all ages under both The Children Act 2004 and The Care Act 2015. The Council has in place a Safeguarding Children and Vulnerable Adults Policy and this and the associated procedures are monitored regularly to ensure compliance with these duties. The Council also liaises with both the Hampshire Safeguarding Children Partnership and Hampshire Safeguarding Adults Board to ensure this. On a bi-annual basis the Council is required by the Hampshire Safeguarding Children Partnership to complete the required Section 11 audit as a self-assessment of its position with regards its safeguarding duties. The last audit in 2019 identified that the Council is compliant with Section 11 of the Children Act.
- The Council approved a Climate Emergency Action Plan in 2020 to identify the steps it will be taking to work towards achieving carbon neutrality. The ability to make progress on the actions has been affected by the challenges posed by Covid19. However, because of the circumstances created by the pandemic certain areas have progressed quicker than anticipated such as new ways of working. In other areas, progress has already been made in delivering projects to reduce the energy consumption in the running of some of the Council's buildings.
- The Council has introduced a Council Tax discount that will exempt Care Leavers from Council Tax until their 25th birthday.
- The Council's approach to risk management is outlined in its Risk Management Strategy. Corporate risks are reviewed on a quarterly basis by the Council's Service Performance Boards and progress in managing the corporate risk register is reported to OSCOM on an annual basis. Annual workshops are also held with the Council's Management Team to review and update the corporate risks. The Finance Portfolio Holder is the Council's Member Champion for risk management and risk management is embedded within the Council's processes e.g. reports to decision-making committees use a template which includes a section on risk assessment which must be completed before the report can be considered.

The requirement to achieve Nutrient Neutrality from new residential development, overnight accommodation and tourist attractions affects the Council's strategic priority to deliver housing. The provision of measures to secure the use of land to provide off-site mitigation solutions necessary to protect the internationally designated nature conservation sites in and around the Solent, are shown in the attached action plan.

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

Audit Activity

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

Regulatory Framework

- To maintain an overview of the Council’s constitution in respect of contract standing orders, financial regulations and codes of conduct and behaviour.
 - To review any issue referred to it by the Chief Executive, the Deputy Chief Executive, or any Council body.
 - To monitor the effective development and operation of corporate governance in the Council.
 - To monitor Council policies on whistleblowing and the anti-fraud, anti-corruption and anti-bribery strategies and the Council’s complaints process.
 - To oversee the production of the authority’s Annual Governance Statement and to recommend its adoption.
 - To consider the Council’s arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
 - To consider the Council’s compliance with its own and other published standards and controls.
- The Chief Executive is the Council’s Head of Paid Service and has overall corporate management and operational responsibility for the way in which the Council delivers its services. The Head of Legal and Democratic Services is designated as the Council’s Monitoring Officer and has responsibilities under section 5 of the Local Government and Housing Act 1989 for ensuring that the Council complies with relevant laws and regulations and internal policies such as Contract Standing Orders. The Head of Finance and Revenues is designated as the Council’s Section 151 Officer with responsibility for ensuring the “proper

administration of financial affairs". The Head of Finance and Revenues also has responsibility under section 114 of the Local Government Finance Act 1988 for reporting to the Council and the external auditor if the Council has made, or is about to make, expenditure which is unlawful. These three statutory officers meet as necessary during the year to discuss significant corporate issues as they arise.

- The CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010) requires the Chief Finance Officer to report directly to the Chief Executive and be a member of the 'Leadership Team', of equal status to other members. The Council does not strictly comply with this requirement in that the Head of Finance and Revenues reports to the Deputy Chief Executive. However, in practice, the Head of Finance and Revenues is able to report directly to the Chief Executive and Members as and when required, is a member of the Management Team, and is involved and consulted in all matters which have financial implications for the Council.
- The Council's Constitution contains a Confidential Reporting Code for Employees which safeguards "whistle-blowers" who raise legitimate concerns about the Council's actions and specifies how their concerns should be addressed. Financial Regulations require all staff to raise concerns about the use or misuse of Council resources with the Head of Finance (now Head of Finance and Revenues) or Internal Audit who will carry out an independent investigation of the circumstances. Internal Audit also actively encourages staff to raise matters of concern through "Speak Up" campaigns. A form is available on the Council's Intranet for staff to raise concerns (anonymously if desired) about the use of Council resources and this facility has been extended to the website so that members of the public can raise concerns in this area. The Council also has a formal complaints procedure for members of the public to raise issues, e.g. where they are dissatisfied with the service they have received, and an annual report is prepared for OSCOM summarising these complaints and how they were resolved.
- The Council has a detailed Anti-Fraud and Corruption Policy which sets out the roles, responsibilities of officers and Members and actions to be taken when fraud or corruption is discovered. In addition, an Anti-Bribery Policy has been approved to address the requirements of the Bribery Act 2010.
- The Democratic Services Manager is responsible for identifying and providing for Councillors' training needs. The Council has a cross-party Member and Community Development Group which is supported by officers from a range of services. This Group has continued to work to promote an enhanced role for Councillors that focuses on them acting as a catalyst for change to encourage communities to reach their full potential. This work has brought together the needs and expectations of our communities in order to make balanced decisions, and has ensured a culture of democratic accountability is embraced throughout the Council. The Group enables the Council to develop a programme of

Councillor training and development that is shaped by the Councillors themselves, ensuring that training and development activities offered is tailored to individual Councillor needs as well as the needs of Councillors generally, the council and communities. This work has been shared with the Councillor Commission and has become a key part of the ongoing work that supports this national project.

- All new Councillors are provided with induction training to assist them with understanding and successfully carrying out their different roles, with an ongoing programme of training and development provided on specific issues where appropriate e.g. planning, and to build key skills and knowledge.
- All officers also receive induction training and appropriate professional and skills training and development identified, for instance, through annual performance discussions.
- A People Strategy was produced in 2020/21 which shapes the cultural direction and people management practices for the future to enable the Council to achieve its ambitions over the next 3-5 years. Whilst being able to respond to the changing needs of local government and the borough's residents this forms part of the Council's Corporate Framework with close links to the Corporate Plan and Medium Term Financial Strategy.
- The Council has in place various channels of communication with the community and other stakeholders. The Council's Consultation Portal provides a single link to all our current 'live' consultations, giving residents the opportunity to get involved, as well as access to details of the feedback from previous consultations. There are a number of tools in place to enable the Council to hear the widest range of views from local communities, in a consistent way, as part of an evidence led approach to decision making. These include:
 - Statement of community involvement.
 - Community Planning Toolkit.
 - Specialist advice and support through Community Engagement Officers and policy Team.
 - Equality objectives which set out how the Council will ensure an inclusive approach to consultation.
- As the Council's place-based approach has grown partnership websites such as Andover Vision and Romsey Future have been developed, where appropriate, due to the collaborative nature of the projects e.g. Romsey South of town Centre. Consultation and project information has been posted to these websites with clear links back to relevant Council Services. <https://www.testvalley.gov.uk/consultations>.
- Publications such as Test Valley News are sent to all households and the Council's website is an important source of information about the Council and its services. The Council's website has been designed to make it more accessible to residents and businesses of Test Valley and

to make it easier to undertake transactions online. An External Communications Strategy has been produced to support the new Corporate Plan.

- The Council has identified its key partnerships and promotes good governance in those. The Council's Contract Standing Orders and Financial Regulations contain specific sections on partnerships and identify officer responsibilities in relation to the management and involvement in partnerships. Protocols and agreements are put in place for the management of significant partnerships.
- Covid19 Governance - The Coronavirus pandemic and social distancing requirements have necessitated some interim amendments to processes and controls in response to an increase in remote working and access to meetings. These are being delivered in a controlled manner with appropriate advice to managers regarding the risk of error and fraud. The crisis has required the Council to be innovative and flexible in releasing funds in a swift and controlled way. Interim processes have been put in place to maximise the benefits to residents and businesses. Crises like this will inevitably attract individuals who see the opportunity for fraud. All managers have been reminded of the risk of fraud and the various forms it may take. Interim processes are designed with this particular risk in mind.

Review of effectiveness

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

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

- Full Council is ultimately responsible for maintaining, revising and ensuring compliance with the Council's Constitution. The Head of Legal and Democratic Services reviews the Constitution at least annually to ensure that it is up to date with current legislation and best practice.
- The Cabinet has responsibility for the day to day operation of the Council's business unless that business is delegated specifically to another committee (e.g. Planning, Licensing) and ensuring that governance arrangements and compliance is adequate for the conduct of that business.

- As part of the Council's open and transparent approach, Overview and Scrutiny Committee has responsibility for scrutinising the decisions of the Cabinet and reviewing the Council's policies and functions and making recommendations to the Cabinet as appropriate.
- The Council's OSCOM and its Audit Panel takes responsibility for audit and risk management issues, reviewing the Council's work in these areas and monitoring the progress and performance of both Internal and External Audit.
- The Council's General Purposes Committee together with the General Purposes Employment Appeals and Ethics Sub-Committee have the role of promoting and maintaining high standards of conduct amongst Members and assisting them to observe the Authority's Code of Conduct. The work of the Sub-Committee is supported by the appointment of three Independent Persons and Parish representatives as required by the Localism Act 2011, The General Purposes Committee may receive reports as to the operation of the Code of Conduct in addition to which the General Purposes Employment Appeals and Ethics Sub-Committee will receive complaints about Member conduct and determine such complaints and direct or recommend any further action required consistent with the Localism Act 2011 and associated regulations.
- The Council's Internal Audit team, located within the Finance & Revenues Service, carries out a continuous review of the Council's systems to provide independent assurance that the control environment is effective in achieving the Council's objectives. The team objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Authority's resources. The performance of the Internal Audit team is monitored by the Council's Audit Panel and Section 151 Officer. The Internal Audit Manager presents the Internal Audit Strategy and Annual Audit Plan to the Audit Panel and produces an Annual Report giving an opinion of the adequacy of the Council's systems of internal control.
- A self-assessment of the internal audit function's conformance with the Public Sector Internal Audit Standards (PSIAS) was carried out in March 2021. The Public Sector Internal Audit Standards are a mandatory requirement, the objectives of which are to:
 - define the nature of internal auditing within the UK public sector,
 - set basic principles for carrying out internal audit in the UK public sector,
 - establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and

- establish the basis for evaluation of Internal Audit performance to drive improvement planning.

The self-assessment concluded that the function “generally” or “partially” conforms to the standards. Areas of “partial” assurance which will be addressed in 2021/22 included:

- The inability to assess the performance of the Audit Manager due to the vacancy of this post.
- Embedding of additional management KPIs.
- Limited opportunity to realistically benchmark with other local authorities during the year due to the Covid19 position.

There is evidence that the work the Internal Audit function has delivered is effective; especially around risk and performance. It contributes to and has influence in the Authority on these areas. It is a highly respected service that is engaged with the organisation and which provides on-going support in key areas, as well as effective assurance on controls.

- As there is no Internal Audit Manager in post as at the time of producing this statement the Annual Audit Opinion is provided as part of a service contract with the Council. The formulation of the opinion is based on information and documentation provided by officers from TVBC and therefore the opinion is given without delegation or control of the Audit Charter and Strategy or how the audits, undertaken during 2020/21, were risk assessed and scoped. Based on the data provided in relation to the audit plan and other internal governance arrangements, , the Temporary Chief Internal Auditor of Portsmouth City Council is able to provide Substantial assurance in respect of the Council’s risk management, control and governance arrangements. “Substantial Assurance” means that systems in place are generally sound, but some weaknesses have been identified which may put some of the control objectives at risk. These weaknesses have been identified and form the basis of the action plan appended to this Statement.
- As noted in the Annual Governance Statement above, the Council’s governance arrangements have been significantly impacted during 2020/21 due to the Coronavirus pandemic and Response and Recovery Plans established. Internal Audit conducted a review of the governance arrangements relating to this response, the results of which highlighted that substantial assurance could be given on the governance arrangements in place to allow the Council to respond and recover from the COVID pandemic.

Another significant governance issue arose with the Council’s requirement to administer business rates related grants within extremely short timescales multiple times during 2020/21. Internal Audit conducted a review to consider the pre assurance checks undertaken on applications, along with the planned post assurance checks to determine if any money is to be recovered from fraudulent or incorrectly administered grants. This audit resulted in a substantial assurance

opinion being given, provided the post assurance work is undertaken as planned in 2021/22.

- The Council is regularly audited by the External Auditor (Ernst and Young LLP) who independently examines the Council's accounts and financial systems and who presents an [Annual Audit Letter](#) to Members, the latest available covering the financial year 2019/20. This was a positive report with an unqualified opinion on the Council's accounts, system of internal control and arrangements to achieve value for money.

The Covid19 pandemic has had an unprecedented impact on the Council's governance arrangements for 2020/21. These impacts have been evaluated, in line with government guidance and mitigation measures, and developed alongside the Council's strategic partners and Local Resilience Forum.

The date for final publication of the Council's Annual Accounts and Annual Governance Statement is currently 31st July 2021, though consultation has recently closed on proposals to extend this date to 30th September 2021. Once post Covid19 assurance work has been undertaken, this Annual Governance Statement may need to be updated, prior to the new deadline, to reflect any governance changes or issues that arose.

DECLARATION

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

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

Signed: **Signed:**

Leader of the Council

Chief Executive

Significant governance issues

Annex

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

Issue	Action to be Taken	Timescale	Lead Officer
<p>Business Continuity Plan: The Council has a well-established approach to Business Continuity Planning which is primarily based on alternative office accommodation for its employees to relocate to. Although the current Business Continuity Plan remains valid the lessons learned from the pandemic and the move to more remote working means the BCP would benefit from review.</p>	<p>The Corporate Business Continuity Plan is being revisited and revised as part of a Corporate project. This will consider the new ways of working introduced in response to the pandemic.</p>	<p>31/03/22</p>	<p>C Moore</p>
<p>Nutrient Neutrality: Following advice from Natural England, in order to comply with the Habitats Regulations, new development for housing, overnight accommodation and tourist attractions, should achieve nutrient neutrality to avoid an increase in nutrients from wastewater entering the Solent and having an adverse effect on international designated sites.</p>	<p>The Council to secure the delivery of land to provide off-site mitigation solutions in order to achieve nutrient neutral development, including to enable the delivery of housing.</p>	<p>31/03/22</p>	<p>G Smith</p>

Issue	Action to be Taken	Timescale	Lead Officer
<p>Covid 19 Response and Recovery: The Council's governance arrangements and Medium Term Financial Strategy have been significantly impacted by the coronavirus pandemic. Response and Recovery Plans have been put in place and will continue to be delivered during the coming year.</p>	<p>A structured recovery programme has been put in place and incorporated into the Council's governance arrangements. Management Team to continue to lead this programme of work to shape how the Council works in the future based on its Covid 19 experiences.</p> <p>The Council has included a risk and mitigating actions within its Corporate Risk Register to effectively respond to and recover from the Covid 19 pandemic. The actions to continue to be monitored by Management Team during the coming year.</p>	31/03/22	J Moody