Eastleigh Borough Council

Auditor’s Annual Report
Year ended 31 March 2021

March 2022

Building a better working world

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Audit and Resources Committee and management of Eastleigh Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Resources Committee and management of Eastleigh Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Resources Committee and management of Eastleigh Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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

Section 1

Executive Summary

Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council's:	
Financial statements	We issued an unqualified opinion on 12 January 2022 – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
Going concern	We concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We included a material uncertainty paragraph in our audit report highlighting the Council's updated going concern disclosure relating to its ability to refinance borrowing as it falls due and enter into new borrowing. The material uncertainty disclosed by management no longer extends to the extent and duration of current income losses brought about by the adverse impact of Covid-19 as it had done in the prior year, as we are satisfied that income losses alone could not fully exhaust the liquidity of the Council during the going concern assessment period. This is not a modification to the audit report but continues to reflect that a material uncertainty exists that may cast significant doubt on the Council's ability to continue providing the current level of services without an increase in planned income.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	We concluded that financial information in the Statement of Accounts for the Financial Year 2020/21 and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We concluded that we are satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We have had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 16 December 2021 and presented this to the Audit and Resources Committee on 11 January 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed, has not yet been issued and is not expected until June 2022 at the earliest.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Chief Financial Officer. We include details of the audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Janet Dawson

Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Outline Audit Planning Report and Audit Planning Update that we presented to the Audit and Resources Committee on 9 March 2021 and 23 November 2021 respectively. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit – Eastleigh Borough Council

We expect to issue an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The Annual Report and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We issued an unqualified opinion on the financial statements on 12 January 2022 and report our detailed findings to the 11 January 2022 meeting of the Audit and Resources Committee. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Outline Audit Planning Report and Audit Planning Update.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	We did not identify any: • material weaknesses in controls or evidence of material management override; • instances of inappropriate judgements being applied; or • any other transactions during our audit which appear unusual or outside the Council's normal course of business.
Financing revenue transactions from capital resources Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	In response to the risk we: • Tested capital additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. • Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year. In undertaking this testing we focused on the judgements taken by management. Based on our sample testing of property plant and equipment additions and revenue expenditure financed from capital under statute, and review of journal entries, we identified no evidence of material inappropriate financing of revenue transactions from capital resources.

Financial Statement Audit – Eastleigh Borough Council (continued)

Significant Risk	Conclusion
Valuation of operational land and buildings, investment property and surplus assets Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. We made use of our own professionally qualified valuation specialists to support our work in this area.	Based on the work of our valuation specialists and local audit team to challenge and test the work of both the Council's internal and external valuers material adjustments were made to the carrying value of a small number of assets accounted for in the financial statements. We raised associated recommendations for improvement as part of our 2020/21 Audit Results Report which were accepted in full by Management.
Minimum Revenue Provision (MRP) Local authorities are required to charge MRP to the General Fund in each financial year. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance. Given the impact on the Council's General Fund we considered the calculation of MRP as relevant to the risk of management override.	Based on our work we are satisfied that: • The Capital Financing Requirement, on which MRP is based, was calculated appropriately and that its calculation was consistent with other disclosures in the financial statements. • MRP was calculated appropriately. The methodology used by the Council to determine MRP is consistent with prior years and remains in line with the revised statutory guidance.
Group Accounts The Council has a complex group structure within which there have been additional intra-group transactions in the year and more activity in a number of the subsidiaries. Because of this, management needs to reassess each year whether group accounts are required to be produced by undertaking a group boundary assessment	Having reviewed the appropriateness of the Council's assessment of their group arrangements against the requirements of Code of Practice on Local Authority Accounting and underlying accounting standards we remained satisfied that group financial statements did not need to be produced for 2020/21.

Financial Statement Audit – Eastleigh Borough Council (continued)

Significant Risk	Conclusion
Horton Heath Inventory In February 2020 the Council agreed a budget for the construction of the first residential development, consisting of 393 residential units and associated infrastructure, referred to as the First Residential Parcel. Although significant development and construction work is not likely to commence until the start of calendar year 2022, we needed to consider for 2020/21 whether serviced land pots relating to the first construction phase are correctly transferred from inventory to assets under construction on the Council's balance sheet and whether the valuation basis for the land remains appropriate.	We were satisfied that: • Costs added to inventory met the required accounting definition of inventory. • The estimate made by the Council of the net realisable value of inventory was reasonable. • The classification and valuation of services land plots was reasonable.
Ageas Bowl – finance lease asset valuation The Council owns the Ageas Bowl land and stadium and the Ageas Hilton Hotel and Spa which it leases to Hampshire Sport & Leisure Holdings Limited under a finance lease. The value of the lease is accounted for as a material long-term finance lease asset on the Council's balance sheet. If this is not valued correctly this could have a material impact on the carrying value of assets accounted for in the Council's financial statements. In 2019/20 the Council increased the value of its adjustment for expected credit losses to reduce the carrying value of the finance lease asset by approximately £3.3 million reflecting the impact of Covid-19. The Council needed to continue to correctly identify, account for and discloses any further impairment of the carrying value of the finance lease asset brought about by Covid-19, considering the impact of any variations to rental terms or other agreements with Hampshire Sport & Leisure Holdings Limited.	We were satisfied that the expected credit loss impairment to the value of the finance lease asset, which remained unchanged from the prior year, is based on supportable assumptions and remains reasonable.

Financial Statement Audit – Eastleigh Borough Council (continued)

Significant Risk	Conclusion
Assessment and disclosures on Going Concern There remains a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the significant risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure it's going concern assessment is thorough and appropriately comprehensive.	We had no issues to report but amendments were made to the financial statements as a result of our work. As for 2019/20 we included a material uncertainty paragraph in our audit report highlighting the Council's updated going concern disclosure, but note that the scope of the material uncertainty is narrower than in 2019/20 and now solely relates to the Council's ability to refinance borrowing as it falls due and enter into new borrowing. This is not a modification to the audit report but continues to reflect that a material uncertainty exists that may cast significant doubt on the Council's ability to continue providing the current level of services without an increase in planned income.

Other area of audit focus	Conclusion
Pension liability and asset valuation The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We are satisfied that the net pension liability is accurate and correctly reflected in the financial statements.
Valuation of Financial Assets – Amortised Cost Aside from the Ageas finance lease, the Council has one further significant financial asset which is held at Amortised Cost. This is the loan which was made in 2018/19 to Pembers LLP. As this asset is held at amortised cost, management are required to assess the future expected credit loss of the asset. The assessment is underpinned by the risk of default and the underlying value of the collateral. If either of these moved significantly, management would be required to impair the financial asset.	We are satisfied that the valuation of the loan made to Pembers LLP disclosed in the financial statements remains accurate and supportable.
Valuation of Financial Assets – Fair Value through Profit and Loss The Council has four significant financial assets which are held at Fair Value through Profit and Loss. These are Stoneham Lane, Woodside Avenue, Hatch Farm and Bursledon. In each case, the fair value is underpinned by the value of the housing projects. Material judgemental inputs and estimation techniques are required to calculate the year-end debtor values which are held in the balance sheet.	We are satisfied that the valuation of the four significant financial assets which are held at Fair Value through Profit and Loss, which relate to the Stoneham Lane, Woodside Avenue, Hatch Farm and Bursledon developments, is accurate and supportable.

Financial Statement Audit – Eastleigh Borough Council (continued)

Other area of audit focus	Conclusion
NDR (Non Domestic Rates) Appeals Provision The Council is required to establish a provision under IAS37 in respect of successful appeals against billed amounts, and Council uses an expert to assist them in the production of this estimate. This obligation extends to both lodged and appeals not yet lodged. This calculation is inherently subjective and judgemental and In the prior two years, we have identified errors in the calculation which were above our tolerable error.	The methodology used by the Council to calculate the provision was reasonable. The provision was calculated correctly and consistent with underpinning source data. The provision was also correctly disclosed in the financial statements.
Accounting for Covid-19 related grant funding The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.	Our work to challenge the Council's judgment on whether it should account for Covid-19 grant income and expenditure on an agent or principal basis identified two grants where the Council had accounted as agent but we considered, having regard to the relevant grant terms and conditions, that it would be more appropriate to account as principal. This was adjusted for in the final version of the Council's 2020/21 financial statements.

Financial Statement Audit – Eastleigh Borough Council (continued)

Audit differences

As at 16 December 2021 we expect there to be no unadjusted differences.

There were a number of misstatements greater than £918,000 which we expect to be corrected by management. A number of other amendments were also made to disclosures appearing in the financial statements as a result of our work.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.84m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit and Resources Committee that we would report to the Committee all audit differences in excess of £92,000.

Section 4

Value for Money

Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our final VFM risk assessment to the 23 November 2021 Audit and Resources Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had identified two risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work in November and December 2021 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in our audit report.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

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

VFM Commentary

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

How the body ensures that it identifies all significant financial pressures that are relevant to its short term and medium-term plans and builds these into them

The Council sets a balanced revenue budget annually. The budget supports delivery of the Council's key priorities, which for 2020/21 were set out in the Corporate Plan 2015-2025. The budget is therefore used to ensure financial resources are aligned to areas where the Council believes it will secure the greatest benefit to residents of Eastleigh. The annual budget is then linked to the medium-term aspirations of the Council through its Medium-Term Financial Plan (MTFP), which considers a five year forward view, and its Community Investment Programme (CIP) and Capital Strategy. The budget considers known and expected demand and cost pressures and known and expected changes in funding. Allowances are also made for pay and price inflation, contract inflation and planned changes in workforce. The MTFP considers the recurrent costs of the Council's external borrowing, including interest rates and Minimum Revenue Provision, and also includes an interest equalisation reserve which is used by the Council to help ensure it can afford the longer-term impact of any future interest rate rises. The Council regularly revisited the MTFP during the year to update for the ongoing impacts of Covid-19 on its operations and finances, with Covid-19 specific update reports taken to Cabinet in July and November 2020.

In recent years the Council has pursued a strategy, commensurate with its Corporate Plan, of both investing in commercial property and residential property development. This is done to deliver tangible outcomes, such as increased and

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

improved employment space and more housing, while delivering increased revenue income to the Council. This investment has been financed through external borrowing, both long-term from the Public Works Loan Board and short-term from other local authorities. As a result the Council held in excess of £500 million of borrowing at the end of 2020/21, of which approximately £150 million is short-term and will therefore require refinancing in the near future.

To date this policy of commercialisation has been successful in generating revenue streams which have reduced the need for the Council to rely on local taxation to maintain its current and planned level of service provision. However, the level of commercial activity entered into and related borrowing introduces a greater level of risk and complexity to the Council's financial planning arrangements. Although some of the Council's commercial activity and related income streams have not been adversely impacted by the Covid-19 pandemic, for example residential property development, there has been an adverse impact in other areas, for example retail, leisure, and hotel property investments, and linked income streams such as car parking.

Covid-19 also raises further uncertainty around the Council's continued ability to borrow, particularly where short-term borrowing needs to be re-financed, and at what cost. The Council's ability to maintain the level of service provision assumed by the Medium-Term Financial Plan (MTFP) is therefore dependent on the extent and duration of current income losses caused by Covid-19, the Council's ability to refinance debt, the cost of replacement borrowing and the Council's ability to borrow further should there be a need to do so. Considering all of the above, the Council flagged a material uncertainty in the going concern basis of preparation disclosure in both its 2019/20 and 2020/21 financial statements around its ability to continue providing the current level of services without an increase in planned income. We flagged this disclosure in 2019/20 through the inclusion of a material uncertainty paragraph in our audit report.

The continuing adverse impacts of Covid-19 in 2020/21, reduced Covid-19 grant funding in 2021/22 and forecasts of increases in interest rates in 2022/23 mean that we considered there to be a risk of significant weaknesses in the Council's arrangements to ensure that all significant risks and financial pressures are built into the MTFP. We considered the risk to be relevant to the Council's arrangements for financial sustainability, that is how the Council plans and manages its resources to ensure it can continue to deliver its services.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

Risk of significant weaknesses in the Council's arrangements to ensure that all significant risks and financial pressures are built into the MTFP

To gain assurance we considered the Council's arrangements to ensure that all relevant financial risks are properly considered in its MTFP to allow for financial sustainability and the planned level of service provision. Specifically, we:

- Reviewed the key assumptions underpinning MTFP projections for reasonableness.
- Considered the link between the Council's cash flow forecasting and treasury management processes and the MTFP to ensure that the cost of anticipated borrowing is adequately reflected in medium-term financial projections.
- Considered how the Council plans to manage the impact of increases in interest rates, which are widely considered as likely in 2022/23.
- Considered the current level of income losses brought about by Covid-19 and the plans and mitigating actions of the Council to address any continuing or further shortfalls in historic levels income from its commercial activity and related income streams.
- Followed-up our recommendation relevant to this area raised as part of our 2019/20 Audit Results Report.

Our findings in each of these areas were as follows.

Key assumptions underpinning MTFP projections

We specifically considered the impact of Covid-19 on income projections in the MTFP in the following areas:

- Grant income.
- Rental income.
- Taxation income.
- Sales fees and charges income.
- Interest income.
- Car parking income.
- Leisure centre income.

In each area we found the assumptions made to be reasonable and supportable. Although the extent and duration of income losses brought about by the impact of Covid-19 remains inherently uncertain, for example new variants of Covid-19 could lead to a return to lockdown conditions, there is more certainty than in the prior year given the widespread take-up and success of the Covid-19 vaccination

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

programme in the UK, a further years' experience of actual income losses brought about by Covid-19 and the successful agreement of rent deferral arrangements with the Council's most significant commercial income debtors in 2021/22.

We also modelled a 'worst case' scenario, with more pessimistic assumptions on income than those used by the Council, which effectively assumed no recovery at all from the adverse financial impacts of Covid-19. Under this scenario reserves available to support the revenue spending of the Council would still stand at £17.9 million at the end of 2022/23 including the forecast General Fund balance, which we consider likely to be sufficient to cover any further losses incurred. It remains important, however, that careful monitoring continues to be undertaken and that the Council continues to keep sufficient headroom in available reserves to mitigate any further unexpected reductions in income due.

We have also considered the impact of Covid-19 on expenditure projections in the MTFP and are again satisfied the assumptions made are reasonable and supportable. As part of this we note that the Council has included a cost pressure of £500,000 in 2021/22 which has arisen from its decision to defer implementation of the planned programme of efficiencies set out in its Continuous Improvement Strategy (CIS), but that no further allowance has been made for this in the MTFP subsequent to 2021/22. The CIS has now been refreshed for 2021/22. To deliver against MTFP projections it is therefore important that efficiencies set out under the CIS are reinstated and delivered against. See Recommendation 2, raised later as part of this commentary.

Borrowing projections

We are satisfied that anticipated borrowing has been properly factored into the Council's cash flow forecast which considers both repayments of short-term borrowing due and further anticipated new borrowing. We are also satisfied that the revenue costs of borrowing have also been properly included in MTFP projections, but note that no allowance has been made when short term borrowing is due to be refinanced or new borrowing is planned, for the potential recurrent cost of widely expected increases in interest rates from December 2021. We consider this further below.

Interest rates

Given no allowance has explicitly been made in the MTFP for revenue costs arising from potential future interest rate rises we sought to estimate the possible increase in the cost of interest payable to the end of 2022/23. To do this we used both Bank of England predictions of increases in interest rates and similar forecasts from the Council's own external treasury management advisors. Based on this we determined that additional interest payable could be as much at £3.3m by the end of 2022/23. We note that during this period the Council is also expecting to receive interest income from commercial investments, which is also not factored into the MTFP projections, and therefore could be used to fully or

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

partially offset this additional cost. The Council also maintains an Interest Equalisation Reserve which is designed to mitigate the effect of any interest rate rises from short-term borrowing if rates rise more than forecast. Any surplus generated from lower short-term rates is set aside within this reserve to provide an offset if required. During 2020/21 the reserve was increased by £3.1 million to a year-end total value of £9.3 million. This is important given the expectation of interest rate rises.

Income Losses brought about by Covid-19

We considered the level of continued income losses which may be incurred by the Council. As set out above this included a ‘worst case’ scenario which effectively assumes no recovery after Covid-19. Although the Council would need to call on available reserves to a greater extent than is currently assumed by the MTFP, in this situation our modelling suggested that usable revenue reserves would remain at £17.9m at the end of 2022/23 including the General Fund balance. We consider this provides reasonable contingency to cover any further losses incurred.

Follow-up of prior year recommendation

We raised the following recommendation as part of our 2019/20 value for money reporting

“It is essential that the Authority continues to develop its arrangements for the monitoring and governance of its commercial activity as the full economic impacts of the Covid-19 pandemic become clearer. This should also involve the formulation of reasonable contingency plans to mitigate losses in income.”

As set above, we are satisfied that the both the Council’s MTFP and cash flow forecasting are up to date, properly integrated and based on reasonable and supportable assumptions that consider both the adverse impacts of Covid-19 on the Council’s finances based on actual experience to date and reasonable assumptions about the future. Where potential drivers of increases in net spending have not been fully considered by financial planning arrangements, we have concluded that there is adequate contingency in available reserves to absorb further losses in a reasonable worst case situation. The Council recognised the need for closer monitoring of its financial position and performance during 2020/21 and regularly revisited the MTFP during the year to update for the ongoing impacts of Covid-19 on its operations and finances, with Covid-19 specific update reports taken to Cabinet in July and November 2020. Arrangements have also concentrated on the areas of highest risk, with regular monitoring undertaken of the adverse impacts of Covid-19 on rental income due to the Council, and associated levels of debt.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

Based on the above we are satisfied that there are no significant weaknesses in the Council's arrangements. However, it remains very important that arrangements for monitoring and governance of the Council's commercial activity, and specifically the impact of Covid-19, continue to operate effectively. The Council remains in a position where it is reliant on income from commercial activity to deliver the level of services assumed by the MTFP without the need to generate income from alternative sources, for example by increases in local taxation. It also continues to hold a high and increasing level of external borrowing to finance commercial activity which exposes it to other risks around its ability to refinance the short-term borrowing as it falls due for repayment and increases in interest rates. Particular attention therefore needs to be paid to variables such as increases in interest rates and the Council's ability to deliver against efficiency targets set out in its reinstated CIS. Note that we have also specifically considered financial planning and governance arrangements in respect of the Council's One Horton Heath development as part of our commentary on governance arrangements set out below. We have concluded those arrangements are adequate but have identified some recommendations for improvement. See Recommendations 4 and 5, raised later as part of this commentary. We raise one further recommendation as follows.

Recommendation 1

Maintain and continue to develop arrangements for the monitoring and governance of commercial activity as the rate and extent of economic recovery from Covid-19 pandemic become clearer. This should also involve the continued formulation of reasonable contingency plans to mitigate losses in income.

How the body plans to bridge its funding gaps and identifies achievable savings

The Council has a policy of setting a minimum general fund reserve at £1 million or 10 per cent of the Council's revenue spend, whichever is higher, to deal with unforeseen financial issues. At the end of 2020/21 the Council held a general fund balance of £3.8 million, which is significantly greater than this target level. There are also a number of earmarked reserves to meet specific liabilities when they fall due which increased during 2020/21 by approximately £18 million to a total balance of £40.1 million at the end of the year. Although usable reserves have increased significantly during the year much of this is earmarked to mitigate the ongoing adverse impact of Covid-19 on the Council's finances, for example to compensate for the Council's share of future collection fund deficits when they arise.

At the time of setting the 2020/21 budget a new Continuous Improvement Strategy was launched as part of the MTFP setting an efficiency target of £2.5 million to be saved by 2023/24. The Strategy had three key focus areas:

- Commercial Development.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

- Service Improvement.
- Strategic Re-alignment.

However, due to the exceptional circumstances brought about by the advent of Covid-19, services were not required to meet the continuous improvement strategy in 2020/21, although nonessential spend continued to be discouraged. The CIS is now being recalculated for 2022/23 and ongoing years, to be phased over the life of the MTFP. Given the adverse impact of Covid-19 on some of the Council's operations and revenue streams, and forecast increases in interest rates and therefore the cost of external borrowing, it is important that planned efficiencies set out in the CIS are re-established and delivered.

Recommendation 2

Re-establish and seek to deliver efficiency plans and targets set out in the updated Continuous Improvement Strategy.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The annual budget and MTFP sit alongside and facilitate the Council's Corporate Plan. The Corporate Plan was developed collaboratively with elected members, staff, partners and other stakeholders to prioritise the most important areas the Council needs to focus on in the future. This is done for the Council's limited resources to be spent on the areas where it is needed most. It is considered in parallel with the budget. As it is aligned to the budget and MTFP, it is intended to act as the framework in which investment decisions can be made based on agreed priorities and the outcomes the Council wants to achieve.

The Council's overriding objective is to provide services to residents in the area. The Corporate Plan details the overall vision of the Council as 'to lead and support Eastleigh Borough and its communities: developing a strong and sustainable economy that supports improved standards of living for residents; promoting thriving and healthy communities; and maintaining an attractive and sustainable environment that residents value'. Strategic objectives have also been identified as making Eastleigh:

- a green borough;
- a healthy community; and
- a prosperous place.

The process of preparing the budget for 2020/21 began in October 2019 based on the approved MTFP. Cabinet approved corporate fees and charges in November 2019. Area Committees set fees and charges for local amenities, including car parks as part of their devolved responsibility. The financial and delivery performance for each service is monitored regularly with forecasting of financial performance for the year, and also reporting against service

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

performance indicators to determine service and corporate success. Where this performance information suggests a financial impact this is reflected within the proposed budget.

The Council's established Community Investment Programme continues to form an important part of its annual budget. It is intended to set out the Council's planned strategic capital investment to deliver tangible outcomes, such as increased and improved employment space, more housing, improved awareness of climate issues to aid the Climate and Environmental Emergency, while delivering increased revenue income to the Council. Progress on CIP schemes is reported as part of the highlight reports completed by project managers monthly, and also reported back to the relevant project boards. As with revenue budgets, project managers are asked to identify forecast spend for the year in order that the total CIP budgets can be monitored effectively. As set out previously in this commentary the Council places significant reliance on external borrowing to finance much of its capital activity. As a significant net borrower, the Council's budget is sensitive to interest rate movements. The impact on the Council's investment and borrowing portfolio of current and projected interest rates is therefore also considered as part of its annual budgeting process and monitored on an ongoing basis.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The integration between the Council's business and financial planning has been described above. A significant issue for the Council is its current and planned commercial activity and the level of external borrowing entered into to finance this. Ensuring the MTFP fully considers the planned level of capital activity and associated external borrowing is therefore important. Projections on the planned level of capital spending, borrowing and interest rates are considered each time the MTFP is updated. The Council also maintains an Interest Equalisation Reserve which is designed to mitigate the effect of any interest rate rises from short-term borrowing if rates rise more than forecast. Any surplus generated from lower short-term rates is set aside within this reserve to provide an offset if required. During 2020/21 the reserve was increased by £3.1 million to a year-end total value of £9.3 million. This is important given the expectation of interest rate rises in late 2021/22 and into 2022/23.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The main risks to the Council's financial resilience are driven by:

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

- Its level of commercial activity and the impact of Covid-19 on revenue streams in some areas of its commercial activities, for example commercial investments in retail, leisure and hotels, Ageas Bowl lease rental income and car parking.
- The level of borrowing used to finance commercial activity, a significant proportion of which is short term and will require re-financing over the life of the MTFP. There are risks and uncertainties around the Council's ability to re-finance and increases in interest rates.
- The cessation of C-19 grant funding and the consequential need to identify other revenue or savings to offset the adverse impact of this.

We consider the adequacy of the Council's arrangements to consider these issues as part of the risk raised of significant weaknesses in the Council's arrangements to ensure that all significant risks and financial pressures are built into the MTFP. Our findings and conclusions having undertaken detailed work to assess this risk have been set out above.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance

How the body monitors and assessed risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has sought to develop systems to identify, evaluate and mitigate risks which threaten its ability to meet its objectives to deliver services to the public. To ensure that risks are appropriately mitigated, a separate Covid-19 specific risk register was developed has been kept under regular review by the Strategic Incident Management Team. This details the risks facing the Council and the impact on critical services. The Corporate Risk Register is managed by the Council's Corporate Leadership Board and updated for newly stated risks and ongoing matters on a quarterly basis. The register is also reviewed by the Strategic Risk Management Group (SRMG). A member of the Audit and Resources Committee is appointed to the Strategic Risk Management Group annually and regularly reports back developments and progress to the Audit and Resources Committee. The Group reviews risk arrangements and advises Corporate Leadership Board on risk issues within the Council and on existing and planned risk controls. Risks are reported by the use of risk registers. Each service and programme of projects is required to update its own register as part of the performance management process. These registers are reviewed by service managers. Project risks are reviewed by project managers with their project group and sponsor and overseen by programme managers. Risks are ranked by likelihood and severity of impact in the service and programme risks registers, with risks that are of strategic significance, or for which further Corporate Leadership Board consideration or resource are required, being taken to the corporate risk register.

The risk management process was last updated in 2019/20 with the risk register being taken to Cabinet at least annually. We have reviewed the risk register for February 2021 as taken to Cabinet. The key risks identified in the risk register at that point in time relate to the potential need for additional borrowing, the level of income generated not meeting budgeted targets in some areas and the general impact of Covid-19 on the operations and finances of the Council, including the uncertainty around future lockdowns and the level of Government support. A risk management annual report is also produced summarising risk management activity and outcomes during the year.

The Council has an established anti-fraud and corruption strategy, anti-money laundering policy and whistle-blowing arrangements that are accessible on its website. There is an established internal audit function and programme of work, and an annual opinion on internal control is given by the Chief Internal Auditor. There is also an Internal Audit Charter which describes the purpose, authority and responsibility of internal audit activity. The Internal Audit opinion for 2020/21 confirmed the Council's framework of governance, risk management and control as adequate in most areas. Two limited assurance reviews were issued in the period on petty cash and car and other travel loans. Both are considered to be

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

low risk systems and neither are material to our responsibilities. At the end of 2020/21 the previous Head of Internal Audit was promoted internally to become the Executive Head of Governance & Monitoring Officer. The original proposal was that the incumbent would continue in a role as acting Head of Internal Audit. We considered this constitutes a clear conflict of interest in that the same individual should not both be responsible for governance arrangements and also be required to give assurance on the efficacy of those governance arrangements. In light of this a decision was subsequently taken to temporarily promote an existing member of the internal audit function to become the new Chief Internal Auditor (Acting).

Recommendation 3

Continue to maintain an appropriate separation of duties between the Executive Head of Governance & Monitoring Officer and the Chief Internal Auditor (Acting). Seek to make the Chief Internal Auditor role permanent as soon as practically possible.

<u>How the body approaches and carries out its annual budget setting process</u>

The budget is derived both bottom-up and top-down. The original budget for 2019/20 plus any in year permanent budget approvals was rolled forward as a starting budget for 2020/21. Meetings are then held with managers to update the budget based on their forecasts. Changes are brought back to Finance for challenge, before scrutiny by the Corporate Leadership Board and Policy and Performance Scrutiny Panel. Final proposed changes are agreed and itemised in the budget report that goes to Cabinet and Full Council for formal approval. The Council has a policy of maintaining the general balance at a minimum reserve level of £1 million. In addition to the general fund balance, the Council also holds a number of earmarked reserves to cover unexpected liabilities or increases in costs.

The Council agreed the General Fund budget for 2020/21 in February 2020. The budget included £300,000 of savings as part of the Council's CIS, which was launched with an efficiency target of £2.5 million set to be saved by 2023/24. As noted above efficiency targets in the CIS were not applied during 2020/21 because of the continued impacts of Covid-19 on the Council's operations. The impact of this was more than offset by reductions in service activity and costs in some areas, and Covid-19 grant funding. As a result, the Council delivered a £347,000 surplus in the period and also increased the General Fund balance and earmarked reserves as set out above, although much of this funding will be needed to mitigate any adverse impacts on service provision brought about by the continuing adverse impact of Covid-19 on other funding sources. A further £12 million was also held in the Capital Receipts Reserve at the end of the year which is available for use to support the future capital spending of the Council.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

The target outturn, and all other projections in the annual budget and MTFP, are updated on a rolling basis throughout the year to reflect changes in assumptions based on actual experience, with updates reported as part of the Council's quarterly financial and performance monitoring process. Regular updates of the budget and MTFP are important, but this does mean the Council's outturn financial performance surplus is not easily comparable to the original budget.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Chief Financial Officer is responsible for providing appropriate financial information to enable both the revenue budgets and the capital programme to be monitored effectively. There is a requirement to monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis as part of the Council's overall financial and performance management reporting process. It is the responsibility of Corporate Directors and Heads of Service to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Chief Financial Officer. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Chief Financial Officer to any problems. Any new proposal containing significant financial implications must take note of the Chief Financial Officer's advice as well as that of the relevant Corporate Director.

The Council's financial performance (revenue and capital), savings delivery and business performance are formally reported quarterly through a Finance and Performance Monitoring Report, with Quarter 3 performance reported as part of budget setting and quarter 4 as part of financial outturn reporting. The report combines both financial and service performance monitoring to provide a complete view of the Council's performance and includes:

- revenue monitoring variances;
- a Council Strategy scorecard summary (performance reporting);
- CIP (capital) monitoring;
- monitoring of prudential indicators on borrowing;
- treasury management reporting;
- risk assessment; and
- MTFP implications.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

As part of the process current and proposed corrective actions to address financial and performance risks are also reported. At each reporting stage recommendations are noted and added to the report where relevant or recorded in the meeting actions to take forward. In addition, monthly performance information is provided to the Executive Team and Management Liaison allowing corporate directors to reflect on performance, raise concerns and set actions for service managers.

Although not directly relevant to our assessment of arrangements in the period, since April 2021 financial and performance monitoring reports are being produced in a different way to further automate the process and extend responsibilities in this area outside of finance. The aim is to implement a more automated process where service managers can more easily access monitoring information to assist them in managing the budgets they are responsible for.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Decisions are taken by the committees of the Council, and are informed by detailed reports produced by officers, with key decisions on Council policy taken by the Cabinet or Full Council in accordance with the Council's constitution. There is an established Policy and Performance Scrutiny Panel and Audit and Resource Committee which is the body formally charged with governance at the Council. The role of the Scrutiny Panel is to review decisions made or actions taken in connection with the discharge of any of the Council's functions (including executive functions), assist with policy development and overview, scrutinise policy implementation and make reports and/or recommendations to the Cabinet, Local Area Committees or the Council in connection with the discharge of any functions. The Audit and Resources Committee combines both audit functions, for example considering the work of both internal and external audit and the adequacy of risk management arrangements, and scrutiny functions including a responsibility to review and scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions. The roles and responsibilities of committees are set out in Part 2 of the Council's constitution.

During 2020/21 the Council made a significant decision to self-deliver the construction of houses within the One Horton Heath (OHH) development which previously only extended to the development of serviced land plots. Reports were taken to both Cabinet and the Audit and Resources Committee in February 2021 on the decision to approve the first stage of this scheme, known as the First Residential Parcel (FRP). OHH is the flagship scheme within the Council's Housing Programme and the Council is the landowner of 320 acres. The project is now expected to deliver up to 2,500 new homes in total and is therefore a very significant commitment with both delivery and financing risks. The Council expects 393 properties to be constructed as part of the FRP split as follows:

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

- 157 properties developed for open market sale.
- 188 properties to be retained by the Council with the intention of the creation of a Housing Revenue Account in the future.
- 48 properties to be sold as affordable housing under the 'First Homes' scheme.

In order to finance the FRP the Council expects to enter into an additional £53 million of external borrowing.

We therefore considered the proposal to be a significant risk and commitment for the Council. It is important for the Cabinet to be able to take decisions on the development, and the Audit and Resources Committee to scrutinise those decisions properly, that the information provided to members is comprehensive, accurate and based on reasonable assumptions. We also note that papers on the decision were treated as commercially sensitive and are therefore not available to the general public on the Council's website. We considered the risk to be relevant to the Council's arrangements for governance, that is how the Council ensures that it makes informed decisions and properly manages its risks.

Risk of significant weaknesses in the Council's arrangements to ensure that decisions are taken based on comprehensive and accurate supporting information that is based on reasonable assumptions, and that decisions are taken in an appropriately transparent way

To gain assurance we:

- Reviewed and challenged the financial modelling that underpinned the financial projections in the reports taken to Cabinet and the Audit and Resources Committee. In particular, we assessed whether the reporting was an accurate reflection of the modelling undertaken and that the modelling was based on reasonable assumptions and other supporting evidence.
- Considered the Council's reporting arrangements for decisions of this significance to gain assurance that decisions are taken in an open and transparent way.

Based on our detailed review of the reports taken to committee and supporting financial modelling our findings and judgements are as follows:

- The details in the committee reports can be agreed back to both the detailed supporting appendices and the underpinning financial model. The reporting is therefore reflective of the detailed work that underpins it.
- The financial modelling is necessarily high-level given the level of future uncertainty and potential for variables to change. The approach taken is reasonable and understandable, but for costing and sale value projections in particular a relatively high degree of dependence is placed on the professional experience and local knowledge of the Horton Heath Project Manager and Team.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

- External financing for the project, outside of grant income, will initially be through short-term borrowing. The approach of using a higher long-term borrowing interest rate to forecast the cost of borrowing in the financial appraisal is prudent and recognises the Council's intention of converting at least some of the borrowing from short to long term in the future.
- The decision taken to split the overall project into separate delivery parcels allows the Council to better manage risk. The development exposes the Council to future variables which are difficult to predict, for example changes in the local residential property market, build costs and the cost of borrowing. The approach of disaggregating the overall development into delivery parcels, and seeking separate approval for each delivery parcel to be able to proceed, therefore gives the Council the ability to flex it plans, including reverting back to the sale of serviced land plots, if unforeseen changes occur which make self-delivery either operationally or financially unviable.
- The decision taken to split the overall project into separate delivery parcels also allows the Council to defer decisions on financing and not yet commit to further external borrowing above the £53 million already approved to finance the FRP. This allows decisions on financing after the FRP to be assessed in-line with both the market at the time and experience of the earlier phases.

Based on the above we are satisfied that there are no significant weaknesses in the Council's arrangements. We do, however, identify the following points for improvement and raise associated recommendations:

- There is little detail in the committee reports on the assumptions used or the impact of any changes in those assumptions on the modelling and therefore financial viability of the development. Although we recognise that much of this detail is communicated by management to members in discussion and challenge both inside and outside of committee, we believe there is some scope for more of this analysis to be included in reports for decision.
- We believe reporting in this area should be made in public given that the scale and high-profile nature of the development make it a matter of wider public interest. Although there is some commercial sensitivity in some of the underpinning modelling, for example projected build and project management costs, these specific sections only could be excluded from the reporting.
- We identified one formulaic error in the detailed financial model. The forecast value impacted by the error does not impact the basis for the decision and is simply a check to ensure that the forecast asset value at the end of a 50 -year period is greater than the level of debt. We also note that correcting the value impacted by the error would show a more favourable position. However, it remains important that financial modelling informing a decision of this significance is fully reviewed for accuracy.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

Recommendation 4

Future decision reports on the One Horton Health project and any other similar significant developments should generally be made public given their operational and financial significance. Where information is commercially sensitive seek to exclude only that information as exempt business where practically possible to do so.

Recommendation 5

Seek to include more details of assumptions used, and the impact of any changes on those assumptions, in project appraisals and decision reports of this nature. Routinely undertake checks for error in detailed financial modelling underpinning significant decisions. This could be achieved through review by an appropriate officer separate to the author of the financial model.

<u>How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interest)</u>

The responsibilities and statutory requirements of all officers and members are embedded in the Constitution. All significant actions by the Council which may have legal implications either require authorisation by the Monitoring Officer or individuals specifically delegated to act on behalf of the Monitoring Officer as set out in the Council's decision-making rules. Decision makers are also required to act within the Council's Standing Orders and scheme of delegation which makes provision for legal and constitutional advice to inform such decisions. The Council's Constitution contains a number of check points at which officers are able to identify whether decisions are being taken in compliance with the prescribed rules which ensure legal compliance. The Council has also adopted a Local Code of Corporate Governance (the Code) which is a framework based on guidance published in April 2016 by the Chartered Institute of Public Finance Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) around 'Delivering Good Governance in Local Government'. The Code is underpinned by the 7 core principles in the CIPFA/SOLACE framework, and is comprised of policies, procedures, behaviours and values by which the authority is controlled and governed. The Code therefore provides the structures and guidance to ensure effective governance across the Council. It also sets out the Council's expectations and arrangements in place to help ensure that the Council conducts its business in accordance with the law and proper standards. One of its objectives is to ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

There is an established Officer Code of Conduct, Councillor Code of Conduct, Councillor-Staff Protocol and Local Code of Conduct for Councillors and Staff Dealing with Planning Matters. These are set out in Part 5 of the Council's Constitution. Both members and officers are also required to declare related party interests with the disclosure of member interests being publicly available on the Council's website.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance and identify areas for improvement

The Council produces a Council Strategy Quarterly Scorecard Summary of key performance indicators (KPIs) linked back to its Corporate Plan. The KPIs are organised into five strategic themes: Environment; Economy; Health and wellbeing; Housing and Development; and Organisation. Performance outcomes are reported as part of quarterly financial and performance monitoring arrangements as detailed above. The scorecard is used to flag areas of required improvement, devise actions to address any weakness identified and monitor progress.

The Policy and Performance Scrutiny Panel and Cabinet are responsible for considering reported performance against the KPIs and ensuring effective and efficient mitigating actions are taken to ensure targets set are being met.

How the body evaluates the services it provides to assess performance and identify areas for improvement

As set out above, service performance against Council priorities is considered regularly throughout the year through the Council Strategy Quality Scorecard Summary, which is part of the quarterly Corporate Performance and Financial Monitoring Report. Monitoring arrangements therefore present a complete picture of both business and financial performance. This enables the Council to identify services that are not performing as expected by reference to KPI outcomes against targets which are based on the Council's strategic priorities as per the Corporate Plan. The Council continues to monitor and review its corporate priorities and MTFP to ensure that the plan and KPI's are aligned to the changing environment especially given the uncertainties caused by Covid-19 and the impact of the pandemic on the Council's operations and finances.

At the end of 2020/21 there were 'red' rated KPIs where targets had not been achieved across all of the five strategic themes considered in the Quality Scorecard Summary, although in a number of cases this reflected where service performance was negatively affected by Covid-19 social distancing measures in a direct way, for example by the closure of venues.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

Although not an external partnership the Council has a group structure and a number of related companies that are used to deliver residential property development. We considered the Council's governance arrangements for commercial activity as a significant risk in our 2019/20 Value for Money work and part of the risk of significant weaknesses in the Council's arrangements to ensure that all significant risks and financial pressures are built into the MTFP. We have reported the findings of this work above and have identified no significant weaknesses in the Council's arrangements in this area.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Improving economy, efficiency and effectiveness (continued)

Outside of the group structure there are no material partnerships, however two small services are run in partnership with Southampton City Council (SCC):

- Building Control
- Licencing

The service functions provided by SCC are done so in line with service contracts which are managed by the relevant service manager and included in the Council’s quarterly performance reporting. In addition, Internal Audit also audit the contracts and services to ensure they are being delivered in accordance with the agreements in place.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses with it is releasing the expected benefits

The Council purchases goods and services from a variety of suppliers. There is an established procurement process and arrangements with details made available on the Council’s website. Information available on the website also details the terms and conditions for any purchases of consultancy services, other services and goods. Any procurement opportunities for more than £50,000 are recorded on the South East Business Portal.

All procurement processes and contract awards must comply with the Council’s Contract Standing Orders set out in Part 4 of its Constitution. This also sets out the limited circumstances and processes that need to be followed for those requirements to be waived. There is a Procurement Executive Group which aims to ensure that the procurement of goods, services and works achieves value for money in delivering the Council’s corporate strategy and strategic priorities through fair and proper processes.

VFM Commentary

The Council has agreed five recommendations which we will follow up as part of our 2021/22 VFM arrangements work.

Recommendations for improvement

As a result of the VFM procedures we have carried out we have agreed the following recommendations with the Council:

Recommendation 1

Maintain and continue to develop arrangements for the monitoring and governance of commercial activity as the rate and extent of economic recovery from Covid-19 pandemic become clearer. This should also involve the continued formulation of reasonable contingency plans to mitigate losses in income.

Management Response: Accepted. A bi-annual report to Audit & Resources will now remain in place to report material commercial activity.

Recommendation 2

Re-establish and seek to deliver efficiency plans and targets set out in the updated Continuous Improvement Strategy.

Management Response: Accepted. A revised Continuous Improvement Strategy and budget saving target will be included in the budget report in February 2022.

Recommendation 3

Continue to maintain an appropriate separation of duties between the Executive Head of Governance & Monitoring Officer and the Chief Internal Auditor (Acting). Seek to make the Chief Internal Auditor role permanent as soon as practically possible.

Management Response: Accepted. The separation will now be in place permanently with the Chief Internal Auditor role being made permanent as soon as possible in the new financial year.

Recommendation 4

Future decision reports on the One Horton Health project and any other similar significant developments should generally be made public given their operational and financial significance. Where information is commercially sensitive seek to exclude only that information as exempt business where practically possible to do so.

Management Response: Accepted. This can be evidenced in the report to Cabinet in December 2021

Recommendation 5

Seek to include more details of assumptions used, and the impact of any changes on those assumptions, in project appraisals and decision reports of this nature. Routinely undertake checks for error in detailed financial modelling underpinning significant decisions. This could be achieved through review by an appropriate officer separate to the author of the financial model.

Management Response: Accepted. Where possible material assumptions and sensitivities will be included in future reports

Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

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

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Council to complete this work as required.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues to date during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Control Themes and Observations

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

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We did not identify any significant deficiencies in the design or operation of an internal control. We have, however, raised recommendations for improvement of the financial reporting process in our 2020/21 Audit Results Report.

Appendix A

Audit Fees

Audit Fees – Eastleigh Borough Council

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee – Code work	39,328	39,328	39,328
Planned 2019/20 recurrent fee variation reflecting the underlying level of additional risk at the Council yet to be agreed by PSAA (See Note 1)	30,000	30,000	30,000
Scale Fee Rebasing: Fee for further changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	49,000	49,000	49,000
Revised Proposed Scale Fee agreed by the Council to date	118,328	118,328	118,328
Risk based fee variations agreed by the Council but yet to be agreed by PSAA (see Note 2)	TBC	N/A	31,000
Total Fees	**TBC**	**118,328**	**149,328**

Note 1 - Given the number of significant risks and areas of audit focus that we highlighted in our audit plan as areas of additional work required to meet our responsibilities, we provided an estimate of the additional fee that will be incurred in 2019/20 and in future years of £30,000, relating to the specific audit risks of the organisation. In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we have undertaken additional recurrent work at a fee of £49,000 to deliver the audit. These additional recurrent fees have been agreed by the Council, but PSAA have not yet determined.

Note 2 – We agreed additional risk based fee variations with the Council of £31,000 for our audit of the 2019/20 audit which have yet to be determined by PSAA. We have not estimated additional risk based fees arising for the 2020/21 audit, but will advise the Council of these in due course.