

Public Document Pack

SOUTHEND-ON-SEA BOROUGH COUNCIL

Audit Committee

Date: Wednesday, 12th August, 2020

Time: 6.30 pm

Place: via Microsoft Teams

Contact: Colin Gamble

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AGENDA

- 1 Apologies for Absence**
- 2 Declarations of Interest**
- 3 Minutes of the Meeting held on 29 April 2020**
- 4 Internal Audit Service Quarterly Performance Report**
Report of the Executive Director (Finance and Resources)
- 5 Head of Internal Audit Annual Report 2019/20**
Report of the Executive Director (Finance and Resources)
- 6 Counter Fraud & Investigation Directorate Quarterly Performance Report**
Report of the Executive Director (Finance and Resources)
- 7 Deloitte: External audit 2019/20 final report**
Report of the Executive Director (Finance and Resources)
- 8 Statutory Statement of Accounts and Annual Governance Statement 2019/20**
Report of the Executive Director (Finance and Resources)
- 9 Audit Committee Annual Report 2019/20**
Report of the Executive Director (Finance and Resources)
- 10 Information Items**
 - CIPFA Audit Committee Update 32 (June 2020)
 - Covid-19 pandemic – key issues for the Audit Committee
 - NAO – Guide for Audit Committees on financial reporting and management during Covid-19
 - IASAB – Conformance

Members:

Cllr P Collins (Chair), Cllr L Burton (Vice-Chair), Cllr B Ayling, Cllr T Cox, Cllr M Davidson, Cllr N Folkard, Cllr S Habermel, Cllr M Kelly, Cllr I Shead and K Pandya

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SOUTHEND-ON-SEA BOROUGH COUNCIL

Meeting of Audit Committee

Date: Wednesday, 29th April, 2020
Place: Virtual Meeting via MS Teams

3

Present: Councillor P Collins (Chair)
Councillors L Burton (Vice-Chair), B Ayling, T Cox, M Davidson,
N Folkard, S Habermel, M Kelly, I Shead and K Pandya

In Attendance: C Gamble, A Barnes, J Chesterton, E Allen, R Gill, S Dutton and C
Wisdom (Deloitte).

Start/End Time: 6.30 - 8.22 pm

900 Chair's Opening Remarks

The Chair made an introductory speech, highlighting that this was the first public meeting of Southend-on-Sea Borough Council to be held 'virtually' in accordance with the 2020 Regulations governing remote meetings.

901 Apologies for Absence

There were no apologies for absence at this meeting.

902 Declarations of Interest

The following Councillor declared interests as indicated:

Councillor Davidson – Minute 905 (Deloitte: Audit Plan to the Audit Committee, Audit for the year ending 31 March 2020) and Minute 906 (Counter Fraud and Investigation Directorate Quarterly Performance Report) – non-pecuniary interest: Non-Executive Director of South Essex Homes.

903 Minutes of the Meeting held on 15th January 2020

Resolved:-

That the Minutes of the Meeting held on 15th January 2020 be confirmed as a correct record.

904 Deloitte: Housing Benefit Subsidy Certification report for the year ending 31 March 2019

The Committee considered a report of the Executive Director (Finance and Resources) presenting the External Auditor's Housing Benefit Subsidy Claim assurance report for 2018/19.

The Committee asked a number of questions which were responded to by the representative for Deloitte.

Resolved:

That the Grant Claim and Return Certification Report for 2018/19, be accepted.

905 Deloitte: Audit Plan to the Audit Committee, Audit for the year ending 31 March 2020

The Committee considered a report of the Executive Director (Finance and Resources) presenting the External Auditor's Audit planning report for 2019/20.

In response to questions on the funding implications associated with Covid-19, the Executive Director (Finance and Resources) advised that this would be addressed through the submission of separate reports to the Cabinet, including budget monitoring reports. The Head of Internal Audit added that the Audit Plan for 2020/21 would include an assessment of the use of resources in response to the Covid-19 situation.

On consideration of Appendix 3 to the report, the representative for Deloitte undertook to ensure that some specific guidance in relation to Covid-19 would be included in future External Auditor reports to the Committee.

The Committee asked a number of questions which were responded to by the representative for Deloitte and Council officers.

Resolved:

That Deloitte's Audit planning report for 2019/20, be noted.

906 Counter Fraud and Investigation Directorate Quarterly Performance Report

The Committee considered a report of the Executive Director (Finance and Resources) setting out the progress made by the Counter Fraud & Investigation Team in delivering the Counter Fraud Strategy and Work Programme for 2019/20.

In response to comments on the allocation of resources to counter fraud investigations, the Acting Senior Investigations Officer undertook to provide additional information on the matter for inclusion in future reports to the Committee.

The Chair asked that an online training programme for Council officers and councillors to help highlight financial crime be investigated.

The Committee asked a number of questions which were responded to by officers.

Resolved:

That the performance of the Counter Fraud & Investigation Team, be noted.

907 Internal Audit Service Quarterly Performance Report

The Committee considered a report of the Strategic Director (Finance and Resources) setting out the progress made in delivering the Internal Audit Strategy for 2019/20.

The Committee asked a number of questions which were responded to by officers.

Resolved:

That the progress made in delivering the 2019/20 Internal Audit Strategy, be noted.

908 Internal Audit Charter, Strategy and Audit Plan for 2020/21

The Committee considered a report of the Executive Director (Finance and Resources) presenting the Internal Audit Charter with the supporting Strategy and Audit Plan for 2020/21.

On consideration of the report, the Head of Internal Audit undertook to ensure that the report to be submitted to the next meeting of the Committee on the delivery of the Audit Plan would include information on the prioritisation of specific audit work.

The Committee were asked a number of questions which were responded to by officers.

Resolved:

That the Charter, Strategy and Audit Plan for 2020/21, be approved.

909 Audit Committee Assessment and Development Update

The Committee considered a report of the Executive Director (Finance and Resources) providing an update on the assessment and development plans in respect of the Audit Committee.

The Chairman highlighted the importance of the audit self-evaluation survey and encouraged members of the Committee (who had not yet participated in the survey) to complete the skills stocktake form as soon as possible.

Resolved:

That the Audit Committee members (who have yet to complete the skills stocktake form) complete the skills form and it be noted that the audit training date arranged for 23rd March will be rescheduled following the end of lockdown due to Covid-19.

910 Information Item

The Audit Committee received and noted the following information item:

- CIPFA Audit Committee Update 30 (February 2020): 'CIPFA Financial Management Code, responding to the Redmond Review: Results of CIPFA's Survey on Audit Committees and briefing on new guidance and resources.'

Chair: _____

Southend-on-Sea Borough Council

Report of the Strategic Director (Finance and Resources)

to

Audit Committee

on

12 August 2020

Report prepared by: Andrew Barnes, Head of Internal Audit

Agenda

Item No.

4

Internal Audit Services, Quarterly Performance Report

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2019/20.

2. Recommendations

- 2.1 **The Audit Committee notes the progress made in delivering the 2019/20 Internal Audit Strategy.**

3. Internal Audit Plan Status

- 3.1 **Appendix 1** sets out the current status of the audit work planned for the year as at 31st July 2020. This highlights where audits contained in the original plan considered by the Audit Committee in March 2019 have changed and why.
- 3.2 **Appendix 2** sets out the results of the work completed since the last progress report to the Audit Committee in April.
- 3.3 In addition to the originally planned audit work, the team has also been assisting the organisation with the work being undertaken to deliver Transforming Together, providing challenge and advice to the teams working on delivering the outcomes required for the Council to change. Different members of the audit team have been involved in different aspects of this work, each helping to shape the direction of travel being pursued by the Council.
- 3.4 The team has also been providing challenge, advice and support on a number of other issues, initiatives and projects that the Council is undertaking and dealing with, as outlined in Appendix 1 in the section headed "Advice and Support". Further to this the team has also been providing assistance to the Council's wholly owned subsidiary company Southend Care, and through the relationship with South Essex Homes, their subsidiary company South Essex Property Services.
- 3.5 Since October 2019 the Head of Internal Audit has also been given responsibility for the re-integration of the counter fraud team to become an in-house service.

- 3.6 During this period we have issued eight reports and we have three audits at draft report stage. As a result of the Covid-19 pandemic emergency a key focus for the team has been providing advice and support to new activities and changes to arrangements that the Council is having to implement at pace to respond to the pandemic that has dramatically affected the way that all services and everyone is having to work, as the onset of Covid-19 and subsequent lockdown had a significant impact on all areas of the public sector and all other sectors. Operationally, the Council has had to react quickly to rapidly changing circumstances. This has had an impact on the pace of progression for some of our audits, however we continue to work closely with services to finalise the 2019/20 audit work, the majority of which is now complete.
- 3.7 In order to ensure that our work continues to focus on the areas of greatest risk to the Council, we are re-prioritising our Internal Audit plan for 2020/21 that was initially presented to the Committee in April. As part of doing this we have reviewed 'The Council's response to Covid-19' report that was taken to Cabinet and the Scrutiny Committees in June, and which has captured the key elements of the Council's response to the pandemic. We are using the issues that we have identified in that report to help focus our work in supporting the Council in the most effective way and we will work with senior management to identify where our independent assurance will add the most value in the changing circumstances that are being faced. We will report the updated and re-prioritised 2020/21 Audit Plan to the Committee at the next meeting, once this evaluation has been completed.

4. Performance Targets and Resourcing

- 4.1 As outlined in the Strategy presented to the March 2019 Audit Committee, the team will be reporting on a more limited set of indicators this year given the amount of work that is still being contracted out.
- 4.2 As at 31st July 2020:
- For the period 1st April 2020 – 30th June 2020 the team had 37 days of sickness absence which equates to 5.39 days per FTE.
- 4.3 In terms of the jobs in the plan:
- 81% of audits have finalised reports issued
 - 5% of audits are completed with the reports drafted and being discussed with the service managers
 - 11% of audits are completed with the reports drafted and being reviewed by internal audit management
 - 3% of audits have fieldwork nearing completion or the draft report being produced
 - 0% of audits remain work in progress.

- 4.4 Of the Audit Plan presented to the March 2019 Audit Committee 15 audits have been removed from, and 7 audits added to the original plan. Removal has been for various reasons, including positive independent external assessment feedback, changes to government requirements being forthcoming, services moving to different line management and the impact of Covid-19 on the capacity of services to be audited at the current time. Additions have been because of new issues and risks arising. The specific reason for each audit is documented in Appendix 1.
- 4.5 Stakeholder surveys are completed throughout the year as audits are completed. **Appendix 3** reflects the results of the 8 surveys covering 7 audits. One survey has been completed for 2019/2020 since the last report in April, as understandably this has been a low priority activity for services during this period of dealing with Covid-19. The feedback obtained remains positive, with the results showing that stakeholders feel informed, consulted, and satisfied with the ability of the Internal Audit team to effectively articulate and evidence audit findings, desired outcomes and actions required. However in this period there is some scope for improvement in the effectiveness of keeping the service being audited informed of progress and the report reflecting the work done and the issues found. The team will work to improve this in future reporting.
- 4.6 The shared team with Castle Point has a resource structure consisting of:
- two Audit Managers (both in post)
 - two Senior Auditors (one post vacant)
 - four Auditors (two posts vacant)
 - outsourcing to accountancy firms to undertake audits, funded by the underspend on salaries from the vacant posts.
- 4.7 That leaves the shared team with three vacancies at 31st July. The salaries of the vacant posts are currently being used to fund audit resource brought in from suitable accountancy firms to assist with delivery of the audit plan.
- 4.8 The expected requirements of the internal audit service into the future continue to evolve and the impact of Covid-19 is causing further consideration to take place. There is a growing requirement for better collaboration between risk functions (risk management, internal audit, compliance and other risk functions) as organisations evolve to embrace the fourth industrial revolution. Risk functions are being expected to be active participants, helping to achieve and protect the value of the organisation. Risks are becoming increasingly complex and interconnected, and without close risk function collaboration it is possible that blind spots to risk will arise for key stakeholders in the organisation that can then impact on strategic, financial and operational initiatives.
- 4.9 Developments continue to be monitored and assessed, with responsibility for corporate risk management having been transferred to the Head of Internal Audit, and the most appropriate team model to deliver those changing responsibilities utilising the financial resources available needs to be determined and agreed. Once the current team resourcing and integration activities are complete, this model will then be implemented to provide an appropriate mix of experienced staff, trainees who will be put through a relevant training programme and externally sourced skills. This will enable the team to continue to deliver the service required by the organisations that it serves.

5. Reasons for Recommendations

- 5.1 Internal audit are an assurance function providing assurance to assist the Audit Committee to effectively discharge its responsibilities as per its Terms of Reference. The delivery of the internal audit plan will assist the Audit Committee with obtaining assurance that the Annual Governance Statement appropriately reflects the conditions at the Council.**

6. Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

6.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

6.3 Legal Implications

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

6.4 People Implications

People issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

6.5 Property implications

Property issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

6.6 Consultation

The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, Deputy Chief Executives and Directors before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Deputy Chief Executives and Directors before being finalised.

6.7 Equalities and Diversity Implications

The relevance of equality and diversity is considered during the initial planning stage of the each audit before the Terms of Reference are agreed.

6.8 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its corporate aims and priorities.

The main risks the team continues to manage are the:

- potential loss of in-house staff and the ability of the service to replace this resource in a timely manner
- lack of management capacity to support and develop the team, while processing work in a timely manner and providing strategic leadership to the team and support to the Council
- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards
- need to maintain relationships with clients / partners while the service is being rebuilt.

6.9 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also periodically considers whether it provides a value for money service.

6.10 Community Safety Implications

These issues are only considered if relevant to a specific audit review.

6.11 Environmental Impact

These issues are only considered if relevant to a specific audit review.

7. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

8. Appendices

Appendix 1 Internal Audit Plan 2019/20

Appendix 2 Audit Assurance and Themes

a Partial Assurance

b Audits Revisited

c Other Audits and Grants

Appendix 3 Stakeholder survey results

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Appendix 1: Internal Audit Plan 2019/20

Managing the Business			
All Outcomes			
All	Risk Management Strategy To lead on the Council's work to embed a robust and efficient risk management framework into its wider governance arrangements.	No	Risk Management Policy Statement and Strategy agreed by Cabinet September 2019. Agreed Implementation Action Plan to test and roll out the new approach between October 2019 to May 2020. Updated Risk Management Strategy approved by Cabinet. Implementation in progress, but timelines will need to be extended due to the disruption caused by Covid-19.
PL (ST)	IT Risk Assessment To undertake a baseline assessment of IT risks against a standard good practice framework and use this to develop the IT element of the Audit Plan going forward.	No	2019/20 work complete. To be revisited as part of Audit Plan for 2020/21 to take account of the new service delivery arrangements currently being implemented.
Implementing Action Plans			
F&R (JC)	Shareholder Board To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	Draft report being discussed with the service. Completed April 2020. Completed April 2020.
L&D (JW)	Emergency Planning To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	
L&D (JW)	Business Continuity To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	

Appendix 1: Internal Audit Plan 2019/20

T (JR)	Information Governance, General Data Protection Regulations To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	Draft report being discussed with service.
Managing Service Delivery Risks			
Pride and Joy By 2050 Southenders are fiercely proud of and go out of their way to champion what our city has to offer.			
PL (NH)	Local Transport Capital Block Funding - Flood Resilience To certify, in all significant respects, that the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
PL (NH)	National Productivity Investment Fund – Town Centre Redevelopment Improvement Project To certify, in all significant respects, that the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
Implementing Action Plans			
No work required			
Safe and Well By 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives			
PE (BM)	Children Centres Contract Management (2018/19) To assess whether the contract is being effectively managed to ensure the planned outcomes for children and families are being delivered in compliance with the specified performance and/or quality standards, at the correct price.	No	Completed July 2019.

Appendix 1: Internal Audit Plan 2019/20

PE (GH)	Homelessness and Rough Sleeping To assess the robustness of arrangements for quickly and effectively supporting people facing homelessness to prevent this from happening and where it does that this is brief and non-recurrent.	Yes	Draft report with the Audit Manager.
PE (JOL)	Independent Reviewing Officers To assess the effectiveness of Independent Reviewing Officers in ensuring children's needs are met and their outcomes improved through the support and services that they receive, enabling them to reach their potential.	No	Completed July 2020.
PE (JL)	Commissioning of a New Service To assess whether commissioning decisions were evidence based through clear and concise commissioning proposals, in order to meet the needs and outcomes required.	Yes	Draft Terms of Reference with Audit Manager. Work halted as a result of a wholesale strategic review of the Council's commissioning function and activity. The work has been included in the 2020/21 Audit Plan and priority will be reassessed as part of the review of the Audit Plan being reported to the October 2020 Audit Committee.
PE (JL)	Outcome Realisation of a Commissioned Service To assess whether the delivery of a commissioned service is being effectively managed to ensure the planned outcomes and / or benefits for residents anticipated by the commissioning process are delivered.	Yes	Draft Terms of Reference with Audit Manager. The work was to be focused around the 0-5 Service (Health Visiting) which was brought back in house from April 2019. Work halted as the Health Visiting Service operates within the Director of Public Health's service which has been significantly impacted by Covid-19. The work has been included in the Risk Watch List for 2020/21 and its priority will be reassessed as part of the review of the Audit Plan being reported to the October 2020 Audit Committee.

Appendix 1: Internal Audit Plan 2019/20

PE (GH)	<p>Private Sector Housing</p> <p>To assess the effectiveness of the Private Sector Housing offer in regeneration of the housing market to ensure inclusive, healthy and safe places to live.</p>	Yes	<p>Moved to 2020/21 Audit Plan.</p> <p>Service moved to Executive Director Neighbourhoods & Environment. Management now responsible in the new service area is currently reviewing processes and resources with the team.</p>
PE (JOL)	<p>In House Foster Carers</p> <p>To assess the effectiveness of the 'Fostering Team Action Plan' in ensuring appropriate processes are developed to allow for statutory requirements to be met and good practice followed, supporting safe and high quality placements for children.</p> <p>(Please note the focus of the audit has changed as a result of the action plan developed after the 'Diagnostic and review of fostering services' undertaken as part of the Partner's in Practice arrangements).</p>	Yes	<p>Completed May 2020.</p>
PL (CR)	<p>Environmental Health</p> <p>To assess whether there are robust arrangements in place to ensure concerns and referrals received are properly and effectively dealt with and statutory responsibilities discharged to protect and improve the wellbeing of residents.</p>		<p>Work in progress halted due to end of year service priorities.</p> <p>Agreed with service to resume audit work May 2020. This was ahead of Covid-19 so timing will need to be renegotiated.</p> <p>Work suspended as a result of Covid-19 and the impact on the service area dealing with issues arising from that.</p> <p>The work has been included in the 2020/21 Audit Plan and its priority will be reassessed as part of the review of the Audit Plan due to be reported to the October 2020 Audit Committee.</p>
PE (SB)	<p>Deprivation of Liberty Safeguards (DoLS)</p> <p>To assess the robustness of arrangements which ensure when a person is deprived of liberty, is necessary and in their best interests.</p>		<p>Removed from the 2019/20 Audit Plan as initial audit enquiries identified that work is underway to fundamentally change the arrangements for how DoLS are managed.</p> <p>The audit has been added to the Risk Watch List for the 2020/2021 Audit Plan.</p>

Appendix 1: Internal Audit Plan 2019/20

PE (SB)	Adult Social Care Financial Assessments To assess the robustness of the process that determines eligibility for financial support towards care needs to ensure it is accurate, transparent and accessible.	Yes	Completed July 2020.
PE (MB / JOL)	Data Quality – Children’s Services To assess the robustness of arrangements to confirm that data entered into the care management system (LCS) by social care staff, which is then used to produce performance indicators for senior management, is reliable.	No	Completed July 2020.
PL (PG)	Building a Safer Future To assess the Building Control team’s preparedness for implementing the changes to Building Regulations and Fire Safety emanating from the Hackitt Enquiry published in December 2018.	No	Removed from the 2019/20 Audit Plan as the required changes emanating from the Hackitt Enquiry have not been confirmed by government.
PE (JOL)	Early Help and Family Support Quality Assurance Framework To assess the effectiveness of the Assurance Framework in supporting the Edge of Care Team to ensure that the right decisions are made to meet children’s needs and keep them safe.	No	Removed from the 2019/20 Audit Plan as the 2019 Ofsted Inspection confirmed that Early Help Services ‘work effectively with families to promote children’s welfare and reduce risk’, and stated ‘Families are involved in evaluating the help they receive; they report that things are better following intervention’.
PE (JOL)	Financial assistance duties under Section 17 To assess the suitability of arrangements in place to identify, approve, monitor and understand spend in relation to the Section 17 budget, to ensure the most effective use of financial resources on an ongoing basis.	No	Added to the audit plan February 2020. Draft report with the Head of Internal Audit.
PE (GH)	Disabled Facilities Grant To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
PE (JOL)	Troubled Families To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Report on the July to September 2019 submissions completed September 2019. Completed April 2020

Appendix 1: Internal Audit Plan 2019/20

Implementing Action Plans			
PL (PG)	Building Control To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	Completed December 2019.
PE (JOL)	Management Response to Quality Assurance Audits (2018-19) To assess whether the actions agreed in the original audit dated July 2018 have been implemented and are now effectively embedded into the day-to-day operation of the service.	No	Completed October 2019.
PE (JOL)	Social Care Payments to Individuals and Providers – Children (2018-19) To assess the robustness of the arrangements identified in the previous memo issued in June 2018, in ensuring that accurate and timely social care payments are made to individuals and providers.	Yes	Completed October 2019.
<p style="text-align: center;">Active and Involved</p> <p style="text-align: center;">By 2050 we have a thriving, active and involved community that feel invested in our city</p>			
Implementing Action Plans			
PL (PG)	South Essex Active Travel (SEAT) Governance Arrangements To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	Completed May 2020.

Appendix 1: Internal Audit Plan 2019/20

Opportunity and Prosperity By 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people			
T (JR)	Hayes Contract Management To assess whether there are robust arrangements in place to ensure that the contract is delivering the planned outcomes and / or benefits in compliance with the specified performance and quality standards, at the correct cost.	Yes	Date for work to be re-determined with the service, as the service is currently focused on Covid-19 initiatives and ensuring optimum utilisation of the Council's human resources. Resource lost due to contractor scaling down staffing resources in response to Covid-19. The work has been included in the 2020/21 Audit Plan and priority will be reassessed as part of the review of the Audit Plan being reported to the October 2020 Audit Committee.
PL (PG)	Parking Enforcement Income Collection To assess the effectiveness of arrangements for the timely collection of this income in line with the expectations set out in the Corporate Debt Policy (November 2017).	Yes	Terms of reference being drawn up. Now added to 20/21 Audit Plan.
PL (PG)	Rechargeable Works To assess the effectiveness of arrangements for recharging third parties for the cost of making good accidental damage to Council assets.	Yes	Feedback from the work undertaken to date is being prepared with a view to developing an action plan alongside the service to help strengthen existing arrangements and maximise recharges to third parties. Completion has been stalled as a result of a combination of the impact of the increased workload the Highways service has experienced due to Covid-19 and supporting the borough in responding effectively to changing government requirements and a loss of resource from the in house audit team.

Appendix 1: Internal Audit Plan 2019/20

Implementing Action Plans			
No work required			
<p style="text-align: center;">Connected and Smart</p> <p style="text-align: center;">By 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure</p>			
PL (ST)	IT Audit – Focus: Disaster Recovery and Continuity Planning The focus of these audits has now been determined following the IT Risk Assessment work (see Managing the Business above).	Yes	Draft report with the Head of Internal Audit.
PL (ST)	IT Audit – Focus: Remote Working The focus of these audits has now been determined following the IT Risk Assessment work (see Managing the Business above).	Yes	Draft report being prepared.
PL (PG)	Local Transport Capital Block Funding - Highways Maintenance To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
PL (PG)	Pothole Action Fund To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
Implementing Action Plans			
No work required			

Appendix 1: Internal Audit Plan 2019/20

Key Financial Systems			
All Outcomes			
T (JR)	Payroll (2018/19) To assess the robustness of arrangements which ensure staff are paid the right amount at the right time in line with Council policies and legislative requirements.	Yes	Completed August 2019.
F&R (JC)	Housing Benefits To assess whether the key controls effectively prevent or detect material financial errors, on a timely basis, so that information from the system can be relied upon when producing the Council's statement of accounts.	Yes	Completed April 2020
F&R (JC)	Council Tax To assess whether the key controls effectively prevent or detect material financial errors, on a timely basis, so that information from the system can be relied upon when producing the Council's statement of accounts.	Yes	Completed April 2020
F&R (JC)	Accounts Payable – Batch Input Files (BIF) To assess the robustness of arrangements to ensure that these payment files are accurate and secure.	Yes	Terms of reference being drawn up. Work suspended as a result of loss of resource in the in-house audit team. The work has been added to the 2020/21 Audit Plan and priority will be reassessed as part of the review of the Audit Plan being reported to the October 2020 Audit Committee.

Appendix 1: Internal Audit Plan 2019/20

F&R (JC)	Income Management System To assess the robustness of the new system to ensure that all income is accounted for in an accurate, secure and timely manner.	Yes	Initial planning and scoping work completed. Terms of reference to be agreed with service. Resource lost as a result of contractor scaling down staffing resources in response to Covid-19. The work has been added to the Risk Watch List as part of the 2020/21 Audit Plan and priority will be reassessed as part of the review of the Audit Plan being reported to the October 2020 Audit Committee.
PE (SB)	Social Care Debt Collection To assess the effectiveness of arrangements for the timely collection of this income in line with the expectations set out in the Corporate Debt Policy (November 2017).	Yes	Completed July 2020.
Implementing Action Plans			
T (JR)	Payroll To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	New addition to the Audit Plan from the Risk Watch list (see Appendix 2a). Fieldwork nearing completion.
Advice and Support			
All Outcomes			
PL (AL)	Cyber Security To provide support and challenge over the robustness of the arrangements for implementing the improvement actions identified by the Local Government Association's 'stock take' of resilience arrangements against cyber-attacks.	Yes	Timing being aligned to the council's internal reporting arrangements for updates arising from the LGA 'stock take'. Progress is being reported to the Good Governance Group at each meeting. Work complete until the next independent 'stock take' is undertaken.

Appendix 1: Internal Audit Plan 2019/20

All	Transforming Together & Southend 2050 To provide support and challenge to the organisation as these continue to develop.	No	The Head of Internal Audit has been supporting the work of the Transforming Together Team this quarter as work on 'simple and effective governance' develops. Work in progress, but this will need to be re-visited following the impact caused by Covid-19 and the Head of Internal Audit will continue to support. Work completed for 2019/20.
All	Information Asset Register Group To provide support and challenge to the group as the Information Asset Register continues to develop.	No	Removed from the Audit Plan as the Information Asset Register Group did not meet.
GGG ¹	Subject Access Requests Children's Services To provide support and challenge around the robustness of arrangements for responding to these requests in the required time frames. (Working with the Transformation Service's Service Design Team)	No	Work halted after improved response times to Subject Access requests resulted from the recruitment of extra staff and additional training being provided. Good Governance Group continue to receive updates on response times at each meeting. Work complete.
<p style="text-align: center;">Pride and Joy</p> <p style="text-align: center;">By 2050 Southenders are fiercely proud of, and go out of their way, to champion what our city has to offer.</p>			
No work planned.			

¹ Good Governance Group

Appendix 1: Internal Audit Plan 2019/20

<p style="text-align: center;">Safe and Well</p> <p style="text-align: center;">By 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives</p>			
PL (AL)	<p>Fire Safety</p> <p>To provide support and challenge to the working group to ensure that fire safety arrangements are appropriate and effectively managed to make buildings safe and feel safe, now and in the future.</p>	Yes	<p>Work in progress.</p> <p>Progress stalled as a result of loss of resource in the in-house audit team. Interim feedback has been provided to services as work has been undertaken and during the annual audit planning process. Added to the 2020/21 Audit Plan for completion.</p>
<p style="text-align: center;">Active and Involved</p> <p style="text-align: center;">By 2050 we have a thriving, active and involved community that feel invested in our city</p>			
No work planned.			
<p style="text-align: center;">Opportunity and Prosperity</p> <p style="text-align: center;">By 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people</p>			
PL (EC)	<p>Better Queensway Joint Venture</p> <p>To provide support and challenge as the organisation develops and implements governance arrangements to monitor the delivery of the programme through the Joint Venture Limited Liability Partnership.</p>	Yes	<p>Support being provided to the Project team and the Council's Partnership Board to assess, capture and manage risk.</p> <p>Further work planned with the Board for January 2020.</p> <p>Work completed for 2019/20.</p> <p>The Risk Register is now regularly presented to the Council's Partnership Board.</p> <p>See Audit Plan 2020-21 for next phase of audit work.</p>
All	<p>Corporate Establishment</p> <p>To provide support and challenge over the development of a corporate establishment, with the purpose of ensuring a complete and accurate personnel establishment list within Agresso and realisation of associated benefits.</p>	Yes	<p>Timing to be determined once the project timeline has been agreed.</p> <p>Now added to the 2020-21 Risk Watch List. Need to determine the current priority of this piece of work given disruption caused by Covid-19.</p>

Appendix 1: Internal Audit Plan 2019/20

PE / F&R (BM / JC)	Use of the Basic Need Capital Grant for Schools To support the Council in determining its role and responsibilities in ensuring value for money for the provision of increased pupil places.	Yes	Completed April 2019.
<p style="text-align: center;">Connected and Smart</p> <p style="text-align: center;">By 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure</p>			
PL (PG)	Highways Improvement Plan To provide support and challenge over the robustness of the arrangements for implementing the agreed improvement actions and for measuring the positive impact of the actions.	No	<p>Feedback provided covering the clarity of ownership and agreed target dates for actions detailed in the Improvement Plan.</p> <p>Recently appointed Executive Director Neighbourhoods and Environment is reviewing current plan to address the above, as well as ensuring clarity of actions and outcomes.</p> <p>Arrangements for monitoring delivery of the Improvement Plan will be considered for potential inclusion in the 2020/2021 Audit Plan.</p> <p>Completed November 2019.</p> <p>Also included in the Risk Watch List for the 2020/21 Audit Plan.</p>

Appendix 1: Internal Audit Plan 2019/20

Managing Service Delivery	
<p>Delivering the internal audit service involves:</p> <ul style="list-style-type: none"> • audit planning and resourcing • managing Audit Plan delivery which includes overseeing contractor work • reporting to senior management and the Audit Committee. <p>Implementing the outstanding actions arising from the external quality assessment undertaken by the Institute of Internal Auditors undertaken in October 2017.</p>	
Risk Watch List	
PE	The effectiveness of the Children's Services Quality Assurance and Practice Framework
PE	Adherence to terms and conditions of the Early Years grant funding (advice and support 2019/20)
PE	Delivery of outcomes from the block contract with Southend Care
PE	Monitoring the delivery of outcomes for older people placed in residential care
PE	Implementation of the Special Education Needs Inspection Action Plan
PE	Essex Partnership University NHS Foundation Trust S75 Agreement
F&R	Counter Fraud and Investigations delivery against the Service Level Agreement with Thurrock Council (New alternative arrangements now being implemented)
PL	Management of the ICT Liquid Logic and / or Logicalis contract
PE	Delivery of outcomes from the Locality delivery model in Adult Social Care
PL	Environmental Health (Now added to the 2019/20 Audit Plan)
T	Payroll revisited (Now added to the 2019/20 Audit Plan)
PE	Vibrance contract management revisited
T	Governance architecture for service delivery
F&R	Implementation of the automated P2P new supplier process (advice and support 2019/20)
PE	Deprivation of Liberty Safeguards (DoLS)
PL	Building a Safer Future

These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit.

Appendix 2a: Internal Audit Plan 2019/20

Audit Activities	Resource allocation
Managing the Business	3%
Managing Service Delivery Risks	42%
Key Financial Systems	13%
Grant Claims	6%
Advice and Support	7%
Follow Ups	8%
Contingency	11%
Managing Delivery of the Audit Plan	10%
Total	100%
Total Council Audit Plan Days	583

The days required to revisit and retest action plans from previous reports are included under each heading.

The Total Council Audit Plan Days reflects the higher cost of buying in external contractors to cover internal vacancies.

Analysis Over Departments		
All	Cross Cutting	4%
F&R	Finance and Resources Service	11%
L&D	Legal and Democratic Services	3%
T	Transformation Service	4%
PE	People	32%
PL	Place	25%
All	Contingency	11%
All	Managing Delivery of the Audit Plan	10%
	Total	100%

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Appendix 2a: Audit Assurances and Themes

Assurance



Adult Social Care Financial Assessments

Objective

To assess the robustness of the process that determines eligibility for financial support towards care needs to ensure it is accurate, transparent and accessible.

Audit Committee Summary

The Adult Social Care Financial Assessment process is clear in its aims to ensure that service users:

- receive the correct support required to pay for their care; and
- are charged the correct amounts to pay for their care subject to the requirements of the Care Act 2014.

The Council's website provides clear information relating to the financial assessment process and is accessible to end users. Furthermore, when an initial financial assessment form is sent to a potential service user, this is accompanied by a 'Care Charges' booklet which outlines who is liable for charges and sets out some payment examples.

The volume of outstanding Financial Assessments has been consistently high at the Council. This often means the income collection process cannot begin and as such each outstanding Financial Assessment increases the likelihood of outstanding debt – and has been identified as a reason for the increasing debt in the Adult Social Care Debt Collection review performed alongside this review. The ability to complete these in a timely and accurate manner will help ensure and inform suitable financial control, providing financial support where it is required and preventing financial loss to the Council.

Strengthening the arrangements identified below will contribute to progressing with the backlog of Financial Assessments whilst considering new assessments as they arise:

- formalising and agreeing the Council's expectations of staff and timelines to complete Financial Assessments;
- working to move all service users on ContrOCC to an automated Financial Assessment plan so that all changes to statutory amounts will be reflected automatically annually, reducing hours of manual input and changes; and
- using reporting functionality within ContrOCC to gain a better understanding of trends and reasons that may be root causes to delays in the Financial Assessments process and performance levels. This will allow reporting on team performance in a consistent and regular way.

Appendix 2a: Audit Assurances and Themes

Assurance



Introducing monitoring and reporting of the timeliness of assessments and reviews within ContrOCC will:

- give senior management assurance that performance of the adult social care Financial Assessments team continues as expected; and
- reduce the need to manually compile the data currently used for monitoring of assessment timeliness.

Management were aware of the need to improve the operational effectiveness across the wider Social Care team, including the use of the systems to inform efficiency and accuracy when completing Financial Assessments. Ahead of the audit, they had commissioned a 'health check' piece of work to map and review the current financial processes across Social Care and compare to expected good practice and alternative ways of working at a high level.

The results of this review have been under consideration by management in parallel with the completion of this audit. Management have stated that a number of the improvements have been implemented since this audit was completed and others planned for future.

This audit has complemented the health check by understanding and evaluating the detailed controls in place or needed to support the changes planned by management.

Management have taken the additional detail identified as part of this audit to further recognise benefits from those improvements, with specific changes being made to improve the Financial Assessment processes, staff roles and responsibilities, the use of the systems for efficiency and the use of data to effectively performance manage and monitor.

Number of actions agreed: 6

Data Quality – Children's Services

Objective

To assess whether the Council officers in Children's Services are accurately recording the required case data in a reliable and timely manner, to ensure appropriate case management and the proper completion of data sets by teams across the Council that informs accurate KPI reporting to Senior Management and Members.

Audit Committee Summary

The Social Workers & Social Work Administration team are responsible for contact with the children and their families. They record the data surrounding any incidents or activities that have taken place, including all relevant details of the child. This data includes their address, ethnicity, gender, parents and siblings. Any errors should be corrected by these teams through internal management review and dashboards on data completeness are reported to managers and heads of service as well as reported weekly to the Chief Executive. This is currently not taking place as there is a lack of

Appendix 2a: Audit Assurances and Themes

Assurance



knowledge over how to utilise an audit trail function in Liquid Logic (the service user data system).

The Operational Performance & Intelligence Team are responsible for the service performance KPI reporting which is created from the core data input by social workers.

Through review of the three policies provided to Internal Audit, there was no mention of the roles and responsibilities of the Council's Data & Management Information Reporting service.

From review of the current information and via discussions with key staff members within the Social Workers & Social Work Administration team, including Managers and Heads of Service, it was confirmed there are no formal reporting measures surrounding the accuracy of the children's data within Liquid Logic. KPIs are in place surrounding completion of the number of parents included in each case, that the ethnicity of a child is completed, that the nationality field is complete, as well as D.O.B and school details, however, there are no KPIs or reporting timescales to monitor the timely completion of updates to records or factual accuracy of the information input.

A monthly meeting is held between Social Work Heads of Service and Managers to discuss each service delivery performance indicator in turn and agree any action to be taken.

Meetings between Children's Services and data specialists are held on a regular basis, however, the governance of these meetings, particularly, the minutes and action tracking could be improved.

Children's data cannot be confirmed to an original source in most cases. This is because children's data is updated on a regular basis from when the original file was created and the manner in which changes are communicated is primarily verbal. Therefore, there is no formal record of the change, and there is no audit trail to determine when changes were made or by whom. This is non-compliant with the Records Management and Data Quality Policy.

It was also apparent that staff do not abide by the Records Management and Data Quality Policy requirement to ensure: "*Computer screens are not left as readable when absent from your desk or work area*". It is recommended that screens be locked using the Windows + L, or CTRL + ALT + DEL keys and then selecting the option to 'Lock Computer' when members of the team leave their desk.

Number of actions agreed: 6

Appendix 2a: Audit Assurances and Themes

Assurance



Adult Social Care Debt Collection

Objective

To assess the effectiveness of arrangements for the timely collection of adult social care income in line with the expectations set out in the Corporate Debt Collection and Recovery Policy (November 2017).

Audit Committee Summary

The Adult Social Care Debt process aims to ensure that people:

- receive the correct support required to pay for their care;
- are charged the correct amounts to pay for their care subject to the requirements of the Care Act 2014; and
- the Council demonstrates to elected members and tax payers that it collects all income due from the provision of Care Act Services as effectively and efficiently as possible.

The Council's website provides clear information relating to the financial assessment process and is accessible to end users. Furthermore, when an initial financial assessment form is sent to a potential service user, this is accompanied by a 'Care Charges' booklet which outlines who is liable for charges and sets out some payment examples.

The Audit Commission report on 'Charging with Care' states that income collected from charges can be used to protect services, extend access and promote independence and wellbeing of customers. Effective financial management is fundamental to being able to fund the quality of services the Council provides. The best method of debt collection is the prevention of debt arising and this policy covers both prevention and recovery.

The Council raises charges for a wide range of services across the organisation and all debt owed will be pursued according to the Council's Corporate Debt Collection and Recovery Strategy (January 2017).

There is an Adult Social Care Debt Policy in place that is being followed by staff, however the department need to develop clear procedures to underpin this to ensure appropriate actions are taken consistently across the team when chasing and managing debt. Increased management oversight is required to ensure the debt policies are being followed appropriately in order to maximise the collection of debt in an effective and timely manner.

At the time of completing this audit, outstanding Social Care debt was rising for the Council. This was partially as a result of an increased number of financial assessments and related activity producing a greater volume of income for collection, but also the Council's ability to follow-up each case in a timely fashion through its system and operational procedures, as well as their use of data.

Appendix 2a: Audit Assurances and Themes

Assurance



Improving the understanding of the debt make up through analysis of the data available would allow Management:

- to gain a better understanding of the debt profile and allow improved targeting of resource; and
- to improve utilisation of staff, especially in times of increased absence.

Number of actions agreed: 14

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Appendix 2b: Audits Revisited

Purpose of these audits

To assess whether the actions agreed in the original audit report have been implemented and are now effectively embedded into the day-to-day operation of the service.

Report Revisited SEAT Governance Arrangements 19-08 (2019-20)

Original Objective

To assess whether there are robust accounting, monitoring and transparency arrangements in place to ensure the outcomes set out in the original bid are met

Summary / Audit Committee Summary

Reporting to Project, Programme and Sponsorship Boards

The above board meetings have taken place regularly at frequencies of monthly for the Project Board and quarterly for the Programme and Sponsorship Boards.

The Dashboard Report acts as an agenda and highlight report, providing an overview of the programmes progress, budget and spend, and risks of current concern. Extending the report to include compliance with the terms and conditions of the grant will provide board members an opportunity to seek further assurance as they feel necessary. A KPI spreadsheet provides simple to understand updates on progress against all KPI's. Both are sent to the boards ahead of each meeting.

There is a Risk Register in place that captures the description and impact of the risks, along with any mitigating actions being taken. There is also a Team Plan showing the ownership for each action but not the timeframes for their completion, which may mean that actions drift or become outstanding.

Providing copies of the Risk Register and Team Plan ahead of the meetings, as with the Dashboard Report and KPI's, will ensure the board are aware of and able to seek assurance on all:

- actions within the Team Plan and the progress of delivery
- risks in the Risk Register and how they are being managed.

Compliance with Procurement and State Aid

An annual plan to identify potential procurement activity in 2019/20 was completed and support and advice was obtained from the Corporate Procurement Team on two occasions, which helped to make sure that the action being taken was compliant with Contract Procedure Rules (CPRs). Advice should now be sought from the team to ensure any CPR considerations relating to the grant extension can be appropriately addressed.

To assist with adhering to various requirements, additional training would help staff understand their importance and assist compliance going forward for:

- Public Contract Regulations 2015 and Southend on Sea Borough Council's (the Council) adoption of this through the CPRs
- State Aid Regulations.

Appendix 2b: Audits Revisited

Third Party Compliance and Contributions

To ensure third parties made the required contribution to the programme as set out in the original grant bid, they were asked to provide a statement of contributions. Three parties were unable to identify or evidence this adequately. As this was a requirement of the grant, it is unclear what the impact of this may be. Now that the extension for funding has been agreed, this should be addressed going forward.

Expenses

Essex County Council (ECC) and Thurrock Council (TC), partners on the South Essex Active Travel (SEAT) project, had not been providing suitable information when claiming back expenses from Southend Borough Council (SBC), who are the lead authority. This was because the expectations of SBC had not been communicated to them clearly, the Memorandum of Understanding (MoU) was not updated and not all of the requirement details had been sent to ECC and TC.

As the extension for funding has been granted, the new Memorandum of Understanding needs to be extended to include the requirement for expense claims to be made in line with the Council's expense policy.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
1	7	4	1	

Appendix 2c: Other Audits and Grant Claims

Independent Reviewing Officers

Objective

To assess the effectiveness of Independent Reviewing Officers (IRO's) in ensuring children's needs are met and their outcomes improved through the support and services that they receive, enabling them to reach their potential.

Scope

The key risks audited are set out in the Action Plan attached at Appendix 1, with details of any action required to mitigate them further.

Recommendations are only made where they are necessary to mitigate fully the risks audited. Therefore, they should be implemented by the dates agreed unless there is a good operational reason why this is not practical.

Audit Committee Summary

The Independent Reviewing Officer (IRO) audit was in progress when Ofsted announced their inspection of Children's Services in July 2019. A decision was made to pause the audit during this period.

The Ofsted report highlighted some opportunities for improvement within the IRO service and so, in consultation with the Head of Children's Transformation, a decision was made not to continue with the audit while an improvement plan was put in place.

The findings from the audit up to this point were shared with the service and the action plan developed which includes areas where there were opportunities to strengthen arrangements. This includes:

- developing a Southend Borough Council specific IRO handbook, detailing the;
 - aims, objectives, required outcomes and / or impact of the IRO service
 - role, responsibilities, accountabilities and expectations of IROs
- re-introducing practice observations and developing a case-file audit programme to give assurance over the quality and impact of IRO practice, help identify good practice and aid ongoing improvement / development of the service
- reviewing and extending data sets within Liquid Logic (LCS) to enable accurate monitoring of performance of the IRO service, including the timeliness of IRO actions
- developing a formal process for capturing and recording decisions made at Child Protection and Looked After Children meetings that require increased monitoring by the IRO, to enable them to actively monitor between meetings, in order to minimise drift and delay for children and young people
- refining the existing dispute resolution process to ensure:
 - timeframes and responsibility at each stage are clear, removing the risk of drift, delay or inaction

Appendix 2c: Other Audits and Grant Claims

- managers have performance information to enable them to action the issues in dispute
- workflow processes for formal and informal cases within LCS are sound, allow for robust monitoring, reporting and escalation on outstanding concerns
- developing a rolling training programme that supports IRO's and Children's Services staff to deliver their legislative duties and the wider requirements of them within Children's Services.

Senior management will monitor and sign off the agreed action plan as part of the Children's Services performance management process, via the Performance Board.

In House Foster Carers

Objective

To assess the effectiveness of the 'Fostering Team Action Plan' in ensuring appropriate processes are developed to allow for statutory requirements to be met and good practice followed, supporting safe and high quality placements for children.

Summary

The Head of Service had carried out a review of the Fostering service in February 2019, supported by Essex County Council through Partners in Practice, and detailed areas for improvement in a 'Fostering Diagnostic and Review of Fostering Services' report. Using the report as a starting position for developing required actions, management drafted an In House Foster Carers Action Plan, to use as a key tool for driving positive change to the service.

At the time of starting the audit, the action plan was being reviewed and refreshed. Following discussion with management, it was decided that there was greater value to be added by Internal Audit, through assisting the service in the development of the revised action plan, in an advice and support capacity.

From December 2019 through to May 2020, Internal Audit met with management on a number of occasions to assist in developing the:

- layout of the plan, to help ensure information within it is clear and concise, easy to follow and understand
- content of the plan, helping to make actions SMART and outcome focused.

The plan was subsequently shared with the Southend Children's Services Early Help and Social Care Performance Board in May 2020, giving experienced Social Care managers the opportunity to:

- feedback on and agree the identified actions, success measures and desired outcomes
- identify areas where other social care teams may be able to support delivery of the action plan
- consider any overlaps or dependencies with other improvement plans within the service area.

Appendix 2c: Other Audits and Grant Claims

Moving forward, Internal Audit will continue to provide advice and support to management as they set out the governance arrangements for the action plan, which will include developing:

- appropriate arrangements to monitor progress against delivery of the actions within the plan, and identify whether these are achieving the desired outcomes
- simple reporting arrangements to allow for regular progress reports on progress in achieving outcomes to key stakeholders.

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Appendix 3: Stakeholder Surveys, Compliance with Professional Standards

Setting up and planning the audit (PSIAS 1200 / 2200)		%
1	Did we show a good level of knowledge and understanding of your service when discussing the potential scope and objective to be covered by the audit before fieldwork took place?	100
Performing the audit (PSIAS 2300)		
2	Did we work effectively with you when doing the audit to minimise the impact on your service?	100
3	Were we able to talk knowledgeably with you about information provided to us and queries we had during the audit?	94
Communicating results (PSIAS 2400) and Improving governance, risk management and control processes (PSIAS 2100)		
4	Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?	93
5	Did we effectively explain to you where we felt action was required to improve your arrangements and why?	100
6	Was the report fair and reflective of the work done by audit and the issues found as discussed with you?	94
Independence and Objectivity (PSIAS 1100)		
7	Did we provide relevant evidence to back up our findings if required?	100
8	At the end of the audit, did you understand the rationale for the overall opinion given?	100
Managing the Internal Audit Activity (PSIAS 2000)		
9	Do you think internal audit adds value to the Council?	100

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Southend-on-Sea Borough Council

Report of the Executive Director (Finance and Resources)

To

Audit Committee

on

12 August 2020

5

Agenda

Item No

Report prepared by: Andrew Barnes, Head of Internal Audit

Head of Internal Audit Annual Report 2019/20

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To provide for the 2019/20 financial year:

- the rationale for and an audit opinion on the adequacy and effectiveness of Southend-on-Sea Borough Council's (the Council's) risk management, control and governance processes
- a statement on conformance with the UK Public Sector Internal Audit Standards (the Standards) and the results of the Quality Assurance and Improvement Programme.

2. Recommendation

2.1 The Audit Committee accepts the Head of Internal Audit's Annual Report for 2019/20 and confirms that the opinion of the Head of Internal Audit can be relied upon as a key source of evidence to support the Annual Governance Statement.

3. Background

- 3.1 The Head of Internal Audit's Annual Report and Opinion provides the Council with an independent source of evidence regarding the design of its risk management, control and governance framework, and how well it has operated throughout the year
- 3.2 The opinion is predominantly based upon the audit work performed during the year, as set out in the risk based Audit Plan discussed with the Corporate Management Team and approved by the Audit Committee.
- 3.3 As outlined in the Internal Audit Charter, audit coverage is determined by prioritising the significance of the Council's activities to its ability to deliver its Ambition and desired Outcomes. This is done:
- using a combination of Internal Audit and management risk assessments (including those set out in risk registers)
 - in consultation with Directors, Executive Directors and the Chief Executive, to ensure work is focused on key risks.

- 3.4 Quarterly meetings are then held with the Chief Executive, the Deputy Chief Executive, the Executive Director (Finance and Resources) and the Good Governance Group to:
- reflect on the original risk profile and work planned
 - determine whether any changes are required to it or the Audit Plan.
- 3.5 Organisationally, this reflects a mature approach to operating an internal audit function.
- 3.6 All individual audit reports are discussed with the relevant Group Managers, Directors and Executive Directors before being finalised.
- 3.7 The opinion and summary findings from audit reviews are reported to the Audit Committee throughout the year.

4 Head of Internal Audit Opinion for the year ended 31 March 2020

- 4.1 Governance comprises of the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. Such arrangements can take many forms and still be effective. Appropriate assurance is then required that these processes are fit for purpose and being applied throughout the organisation.
- 4.2 During 2019/20 the Council continued to build on the work that had been undertaken to create the shared ambition for the borough and desired outcomes for its residents, visitors, students and other stakeholders. This has involved continuing to transform the culture, the way that the Council operates and revised governance arrangements, so that the Council develops a culture, a focus, a structure and ways of working that are most effective and appropriate to deliver the required outcomes.
- 4.3 The impact of the covid-19 pandemic began to manifest itself in the latter part of the year as the Council went into emergency response mode in line with the rest of the country and most of the world. The Council's response appears to have held up well, coordinating a wide range of resources from a range of different sources to provide the support, response and management of the community to meet the requirements of the Borough as it goes through the period of lockdown. Clearly there will be a huge amount to do and further challenges as the Borough and the Council moves into recovery mode and the Council is gearing itself up to deliver and meet the multiple challenges ahead.
- 4.4 As a result there continues to be significant change being made to way the Council is operating. The new governance arrangements and ways of working in the current situation continue to develop and evolve, and therefore there is a need for these to have the opportunity to be properly embedded and assurance obtained that they are working effectively as intended, before they can be considered to be operating effectively. However the opportunity for a period of time in which things can begin to settle into a 'new normal' does not appear to be forthcoming very soon.
- 4.5 Therefore, the remainder of this report should be read within this context.
- 4.6 With regards to the assurance provided by audit work undertaken, in these areas, the design and operation of the Council's risk management, control and governance framework in place for the year was satisfactory overall.

- 4.7 No issues have come to my attention this year, other than those already disclosed, that I believe need including in the Council's Annual Governance Statement.
- 4.8 The basis for forming this opinion is an assessment of:
- the design and operation of the underpinning governance and assurance framework
 - the range of individual opinions arising from risk based and other audit assignments that have been reported during the year, taking into account the relative significance of these areas
 - whether management properly implement actions arising from audit work completed, to mitigate identified control risks within reasonable timescales
 - observations from advisory and support work undertaken
 - changes to the Councils Ambition, management structure and use of technology
 - assurance from other providers including independent regulators and peer reviews
 - the quality and performance of the Internal Audit service and the extent of compliance with the Public Sector Internal Audit Standards.
- 4.9 The Head of Internal Audit has not reviewed all risks and assurances relating to the Council's activities in coming to his opinion.

5. Supporting Commentary

- 5.1 **Appendix 1** summarises the audit opinions issued this year.
- 5.2 The following paragraphs then:
- summarise findings from all the work completed this year
 - highlight the key areas requiring improvement.
- 5.3 Where necessary, actions have been agreed with services to improve the arrangements where the more serious control issues were identified during the audits.

Managing the Business

- 5.4 CIPFA's 'Delivering Good Governance in Local Government' outlines 7 principles that underpin effective governance:
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
 - B. Ensuring openness and comprehensive stakeholder engagement
 - C. Defining outcomes in term of sustainable economic, social and environmental benefit
 - D. Determining the interventions necessary to optimise the achievement of the intended outcomes
 - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
 - F. Managing risks and performance through robust internal control and strong public financial management

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

- 5.5 During the year the Council was working to make progress towards fulfilment of the jointly owned ambition for Southend in 2050. The ambition was arrived at following a major engagement exercise, involving extensive conversations with those that live, work, visit, do business and study in the borough (Principle B). These conversations have continued during the year as the Council has aimed to engage the wider community in delivering the vision of what the borough should be like in 2050.
- 5.6 In order to deliver the ambition the Council identified 23 desired outcomes, that would deliver that ambition, and provided a focus on actions that need to be delivered through a Road Map for delivery to 2023 (Principle C). For each of the 23 outcomes an initial delivery plan was developed and work was then undertaken on what the outcomes will require in the medium term. Work is also in progress on developing an outcome-based investment approach to budgeting, so that resources become more aligned to the 2050 desired outcomes, rather than being organised with a departmental focus. Delivering this change will represent a significant change in mind-set and practice across the organisation. In addition, the Council has also been working to embed its commissioning framework to move the organisation to an outcome based commissioning organisation, aimed at ensuring alignment with the 2050 outcomes, the annual procurement plan, contract procedure rules and market position statements going forward. (Principle D)
- 5.7 To deliver what is required, the Council has recognised the need to change the way that it works, so that it can become more agile, more efficient, more entrepreneurial and more engaged with residents and customers. Therefore the Council has a transformation programme in place, that is working to deliver the identified necessary conditions for the Council to be in the right place to achieve its ambitions. This has been complemented by a revised leadership programme to ensure the right leadership skills and capacity are in place for what will be needed going forward. (Principle E)
- 5.8 The Council has been embedding the set of values that were adopted in the previous year and these are 'inclusive, collaborative, honest and proud'. It has also been embedding the agreed expected behaviours of staff and councillors that are: 'driving positive change, trust and respect, demonstrating strong leadership, act with integrity and behaving responsibly and building relationships to work well together'. These have become the basis of the Council's new appraisal process during the year. (Principle A)
- 5.9 The Council implemented a revised senior management structure and increased the capacity of the corporate management team so that it could better deliver the Southend 2050 ambition, increase in pace of decision making and delivery and to drive transformation of culture. It also simplified its officer governance structure, to ensure more effective stewardship of public resources and to deliver the best possible outcomes through Southend 2050. This has seen the introduction, during the year of four new boards, focussing on: investment, growth & infrastructure, commissioning and innovation & design, that are reporting into CMT, along with a revised Good Governance Group that now also encompasses information management and a focus on promoting simple and effective governance.

- 5.10 The Local Code of Governance was also revised during the year so that it reflected the Council's updated governance arrangements.
- 5.11 Previously it has been reported that the arrangements for identifying, recording and monitoring corporate risks were good and in compliance with the Council's Risk Management Strategy and Toolkit. The level of understanding about how to apply this was also sound. But the process was not being applied as well or consistently at service level, thus reducing the assurance available that these risks were being properly documented and communicated, and as a result, efficiently and effectively mitigated or managed. A revised Risk Management Policy Statement and Strategy was adopted by Cabinet in September 2019 and work is now being undertaken to deliver the updated approach across the organisation. (Principle F)
- 5.12 In a practical sense, there is a strong understanding of risks being faced by individual Directors and a discipline around the production of the Corporate Risk Register, but the value obtained from the process is not being optimised. Better arrangements are needed to effectively move risks up and down the organisation as required. There were some gaps in assurance and insufficient evidence of managing the impact for some risks, despite the regular update and reporting. Some managers and team leaders still needed assistance to:
- fully understand the objectives of and risks relating to the services they were delivering
 - understand what evidence they needed to obtain to provide assurance that these processes were designed and / or being applied properly by their staff, consistently throughout the year.
- 5.13 The responsibility for the approach to corporate risk management has been transferred to the Head of Internal Audit who lead work on the revised Risk Management Policy Statement and Strategy and is now working to implement that refreshed approach so that it operates in a proportionate, practical way, focussing on adding value and minimising the investment of resources required to support the service and corporate process.
- 5.14 Overall, the changes in approach that are being applied across the Council represent significant change for the Council and it remains early days in the implementation of that change. As a result it is recognised that there is still much work to be done to properly deliver and embed the changes to the ways of working and culture that are being sought. Once the changes have been more fully implemented there will be a need to seek assurance that they are working effectively, as intended, before they can be considered to be operating effectively.
- 5.15 However, as demonstrated above, the Council's overall evolving approach to governing and managing itself is consistent with the principles outlined by CIPFA and therefore provides a good platform from which to continue the ongoing work.
- 5.16 Follow up of the previous audit work on the Council's approach to delivering the comprehensive programme of work that had been scoped in advance of **General Data Protection Regulations** (GDPR), found that progress has been made in implementing the recommendations raised as part of the previous audit report dated February 2019, but that further work is required to help the Council ensure and demonstrate compliance with GDPR requirements

- 5.17 The **Shareholder Board** was established in November 2017 and now meets on a regular basis. The main objective for the Board is to consider the governance, risk framework, performance and financial performance of the Council's companies. The Terms of Reference have been approved by Cabinet which set these objectives.
- 5.18 As the Board is still relatively new, there is a need for the Board Members to be supported in the delivery of their role and the Terms of Reference (ToR) have been updated during the year to reflect all the functions that the Board need to undertake as part of their roles and responsibilities.
- 5.19 Follow up of audit recommendations in respect of **Business Continuity** found that the recommendations raised in the audit report are substantially completed and that good progress has been made in implementing the recommendations raised as part of the previous revisited audit dated March 2018. However further work is being undertaken to update Business Impact Assessments, ensure training of staff responsible for services Business Continuity Plans and Incident Management Strategy has taken place and ensure key staff and new joiners have received training.
- 5.20 Follow up of audit recommendations in respect of **Emergency Planning** found that the recommendations raised in the audit report are substantially completed and that good progress has been made in implementing the recommendations raised as part of the previous revisited audit dated May 2018. However further work is ongoing to decide what training should be added to the schedule of mandatory training for some, or all, groups of staff and to assess Rest Centres to ensure facilities within them meet the required potential need during an incident.
- 5.21 Towards the end of the year, and since, the Business Continuity and Emergency Planning arrangements have been tested for real, as the Council has responded to the challenges posed by the Covid-19 pandemic and have been found to have substantially delivered what is required.

Service Delivery Risks

- 5.22 A key objective for Internal Audit is to give a view on whether the Council's risk management and control processes are robust enough to enable services to effectively contribute to the delivery of the Council's Ambition and Outcomes. In respect of 2019/20 audit work was undertaken in the following areas.

Safe and Well

- 5.23 Audit work on **Children Centres Contract Management** identified that although the contract is not delivering the original intended outcomes, the Council recognised this and put in place robust contract management arrangements in accordance with recommended practices, to maximise what can be achieved. The contractors ability to achieve the desired outcomes expected by the contract were affected from the outset by a requirement to TUPE existing staff, the cost involved and the remaining small amount of additional resources available between the tender price and the Council's maximum budget that could be allocated to the provider to recruit into restructured posts. As a result the contract is subject to high-level council led intervention to deliver two focused Action Plans.

- 5.24 Going forward there is recognition that as the delivery of this service approaches the end of the current contractual arrangement, there will be significant opportunities to re-examine how outcomes can best be achieved by applying the principles laid out in the Council's Commissioning Framework. There is acknowledgement that effective commissioning requires collaboration with partners and other key stakeholders. Better defining realistic outcomes and associated performance measures for children and families will ensure the contractual behaviours drives performance for contracted services, if that is the service delivery model selected, necessary to achieve the Council's 2050 ambition and five-year road map.
- 5.25 The **Independent Reviewing Officer** (IRO) audit was in progress when Ofsted announced their inspection of Children's Services in July 2019. A decision was made to pause the audit during this period.
- 5.26 The Ofsted report highlighted some opportunities for improvement within the IRO service and so, in consultation with the Head of Children's Transformation, a decision was made not to continue with the audit while an improvement plan was put in place.
- 5.27 The findings from the audit up to this point were shared with the service and an action plan developed which includes areas where there were opportunities to strengthen arrangements.
- 5.28 The Head of Service had carried out a review of the **In House Foster Carers** Service in February 2019, supported by Essex County Council through Partners in Practice, and detailed areas for improvement in a 'Fostering Diagnostic and Review of Fostering Services' report. Using the report as a starting position for developing required actions, management drafted an In House Foster Carers Action Plan, to use as a key tool for driving positive change to the service.
- 5.29 At the time of starting the audit, the action plan was being reviewed and refreshed. After discussion with management, it was decided that there was greater value to be added by audit, through assisting the service in the development of the revised action plan, in an advice and support capacity.
- 5.30 From December 2019 through to May 2020, Internal Audit met with management on a number of occasions to assist in developing the layout of the plan, to help ensure information within it is clear and concise, easy to follow and understand content of the plan, helping to make actions SMART and outcome focused.
- 5.31 The audit of the **Adult Social Care Financial Assessments** found that because the team is relatively small, it is heavily reliant on key individuals to perform tasks. The audit identified issues with managing the team's capacity and performance. This was more evident when there was insufficient capacity or unavailability to follow-up outstanding information. This meant some key actions have not been performed which may result in a delay of income being collected, exposing the Council to cash flow issues and potential longer-term financial pressures.
- 5.32 The audit of **Data Quality in Children's Services** found that the Corporate Records Management and Data Quality policy in place is not consistently complied with. This specifically relates to compliance with audit trail standards and computer privacy requirements.

- 5.33 It was confirmed there are no formal reporting measures surrounding the accuracy of the children's data within Liquid Logic (the service user data system). Much of the data on children is not confirmed to its source as the source of changes is primarily verbal. There is also a lack of knowledge over how to utilise the audit trail function in Liquid Logic, meaning there is not a clear record of who has processed what changes and why.
- 5.34 Meetings between Children's Services and the Operational Performance & Intelligence Team are held on a regular basis, however the governance of these meetings, particularly the minutes and action tracking, could be improved.
- 5.35 A follow up of the recommendations made in the previous **Building Control** audit found that most of the recommendations had been implemented but that a strategy which outlines how the service will reach a break even position had not been developed. However, this was due to the market changing, leading to a large amount of building control work reverting back to the Council resulting in an increased market share by default.
- 5.36 A follow up of the recommendations made in the previous **Management Response to Quality Assurance Audits** audit found the stages for improving practice detailed within the 'Departmental Response to Audits' process (the process) remain well designed. If consistently applied the process aims to ensure the robustness of action taken to improve social work practice for children whose case files are assessed as inadequate.
- 5.37 Further updates are required to ensure cover arrangements are followed when the Practice Lead is out of the office and the day three meeting is going to be missed and to make clear the requirements of managers to proactively monitor cases found to be inadequate to ensure remedial actions are happening consistently and are effective.
- 5.38 A monitoring spreadsheet has been developed and is well designed to give adequate oversight of the key stages of the process and whether they are being met.
- 5.39 A follow up of the recommendations made in the previous **Social Care Payments to Individuals and Providers** audit found that gaps in arrangements for making payments to providers and service users via the Children's Services database and ContrOCC (the social care finance system) is reducing the assurance that payments made are accurate and valid.
- 5.40 There is scope to improve the review of proposed payments ahead of authorisation, introduce checks by the various social care teams to ensure payments made outside of Liquid Logic are correct and align with arrangements agreed with providers and service users.
- 5.41 Going forward there are plans to significantly improve arrangements by transferring all payments on to Liquid Logic, thereby making the Children's Database obsolete. Access permissions within ContrOCC and Liquid Logic require review to ensure there is appropriate segregation of duties in place between both systems and the payment process.

Active and Involved

- 5.42 A follow up of the recommendations made in the previous **South East Active Travel Governance Arrangements** audit found that the Project, Programme and Sponsorship Board meetings have taken place regularly at frequencies of monthly for the Project Board and quarterly for the Programme and Sponsorship Boards. The Dashboard Report acts as an agenda and highlight report, providing an overview of the programmes progress, budget and spend, and risks of current concern.
- 5.43 There is a Risk Register in place that captures the description and impact of the risks, along with any mitigating actions being taken. There is also a Team Plan showing the ownership for each action but not the timeframes for their completion, which may mean that actions drift or become outstanding.
- 5.44 An annual plan to identify potential procurement activity in 2019/20 was completed and support and advice was obtained from the Corporate Procurement Team on two occasions, which helped to make sure that the action being taken was compliant with Contract Procedure Rules (CPRs).
- 5.45 To ensure third parties made the required contribution to the programme as set out in the original grant bid, they were asked to provide a statement of contributions. Three parties were unable to identify or evidence this adequately. As this was a requirement of the grant, it is unclear what the impact of this may be. Now that the extension for funding has been agreed, this will be addressed going forward.

Connected and Smart

- 5.46 It was possible to certify that grant terms and conditions had been complied with for the following grant claims:
- Local Transport Capital Block Funding – Highways Maintenance
 - Pothole Action Fund.

Pride and Joy

- 5.47 It was possible to certify that grant terms and conditions had been complied with for the following grant claims:
- Local Transport Capital Block Funding – Flood Resilience
 - National Productivity Investment Fund.

Key Financial Systems

- 5.48 The **payroll self-serve module** has embedded well and due to the automated features, it has improved the overall controls, including the facility for employees to scan in the supporting evidence for their claims.
- 5.49 The main areas that need to be reviewed and updated were:
- Expenses and Allowance Policies
 - Validation limits.
- 5.50 The audit of the **payroll system** confirmed that there are robust processes in place to ensure annual changes are properly configured at the start of the financial year and staff access permissions to Payroll on Business World is restricted only to those who need it.
- 5.51 The current guidance for staff confirms the steps involved in processing the payroll, but more information is needed to clarify the purpose of reports that are run and the checks that are undertaken.

- 5.52 Pay forms for starters, leavers and amendments, overtime outside of self-serve, first aid and additional run payments are manually input onto Business World. These are not always independently reviewed to confirm they are accurate. Extending the current monthly spot check to include a selection of the manually input allowances and additional run transactions will help identify when the two-step process has been circumvented.
- 5.53 The audit of the **housing benefit system** confirmed that there are robust processes in place including a manual which covers the legislation and processes to be followed for the Housing Benefits function.
- 5.54 Claims need to be supported by evidence to verify certain criteria are being met. The level of evidence required is detailed within the Risk Based Verification Policy. Each applicant is assigned a risk rating (Red, Amber, Green) via Northgate. The required evidence is then obtained and attached to the relevant file.
- 5.55 The Quality and Assurance Team sample 10% of all claims processed at the Council and record all checks they undertake on a spreadsheet. Any errors are recorded and the officer responsible is notified in order to make a correction. The Benefits Service Managers have access to the spreadsheet in order to monitor performance on an ongoing basis.
- 5.56 Monthly performance reports are produced which include a range of statistics on the Benefits service. These include error levels, summary figures, budgetary information, case loads and overpayments. These reports help to ensure that management remain aware of the performance of the service so that mitigating action can be taken if necessary.
- 5.57 The audit of the **council tax system** confirmed that there are robust processes in place including a detailed guidance document provided to officers in both hard copy and electronically, therefore minimising the risk that they are unaware of their expected duties and working practices.
- 5.58 The Council's record of property subject to Council Tax is maintained via the Northgate system. Weekly updates are received from the Valuation Office (VO) in the form of a Schedule of Alterations. A reconciliation is completed weekly by officers in the Council Tax Team to ensure that the Council's records match the VO's.
- 5.59 The Northgate system is updated with the billing amounts for the financial year by the IT Team, as the Council Tax Team do not have access permissions to change rates within the system, providing a segregation of duties. The approved rates are loaded into the system by the IT Team and then checked by the Council Tax Manager who records the checks made in a spreadsheet.
- 5.60 Payments of Council Tax are automatically allocated against the relevant account using the reference number provided. Any incorrect references will not automatically allocate and manual allocation takes place. A daily report from the income management system details any manual allocations along with which officer allocated the payment.
- 5.61 Outstanding debts are subject to a formal debt recovery process, which is detailed within the Debt Collection and Recovery Policy. Examination of the Policy identified that it had not been reviewed and updated since 2017 and contained some outdated information, therefore increasing the risk that inappropriate processes could be followed.
- 5.62 Monthly Revenues and Benefits service meetings are held and used to discuss any performance issues, therefore reducing the risk that staff and management may remain unaware of the performance of the service.

- 5.63 The audit of the **Social Care Debt Collection system** found that there is an Adult Social Care Debt Policy in place, which covers all of the areas required. However, a lack of supporting procedures and management oversight means the implementation of the Policy is inconsistent and not all appropriate actions are being taken to secure and collect debt.
- 5.64 Furthermore, risks in relation to processing of Letters of Agreement and Deferred Payments were identified. Due to the Adult Social Care Debt team being relatively small, it is heavily reliant on key individuals to perform tasks. The audit identified issues with managing the team's capacity and performance. This was evident when there was insufficient capacity or unavailability to follow-up outstanding income payments. This meant key actions have not been performed which may expose the Council to cash flow issues and potential longer-term financial pressures.

Implementing Action Plans

- 5.65 Internal Audit input agreed actions into Pentana¹ once audit reports were issued. Management then used this to monitor their implementation via Departmental Management Team meetings.
- 5.66 Internal Audit only revisited and retested action plans where a partial or minimal assurance opinion was given. Management closed down agreed actions in reports with high and satisfactory audit opinions once they were satisfied they had been properly dealt with. Internal Audit has been working with departments to enhance this process, to enable management to be able to more effectively check that appropriate evidence is presented when agreed actions are to be signed off and is currently reviewing the use of, and information retained on Pentana.

Proactive Advice and Support

- 5.67 The knowledge obtained through the proactive advice and support work undertaken during the year was also taken into account in coming to the overall opinion given. In 2019/20, this work included:
- providing support and challenge over the robustness of the arrangements for implementing the improvement actions identified by the Local Government Association's 'stock take' of resilience arrangements to achieve **cyber security**
 - providing ongoing support and challenge of the arrangements currently in place and being developed within the **Transforming Together** programme to achieve a Council that is geared up to deliver the Southend 2050 Ambition
 - providing support and challenge around the robustness of arrangements for responding to **Subject Access Requests** in **Children's Services** in the required time frames
 - providing support and challenge as the organisation develops and implements governance arrangements to monitor the delivery of the **Better Queensway** Joint Venture programme through the Joint Venture Limited Liability Partnership

¹ Pentana is the Council's Corporate Performance Information System.

- supporting the Council in determining its role and responsibilities in ensuring value for money for the provision of increased pupil places through **Use of the Basic Need Capital Grant for Schools**
- providing support and challenge over the robustness of the arrangements for implementing the agreed improvement actions and for measuring the positive impact of the actions in the **Highways Improvement Plan**.

Grant Claims

5.68 It was possible to certify that grant terms and conditions had been complied with for the following grant claims:

- Disabled Facilities Capital Grant Determination
- Local Transport Capital Block Funding – Flood Resilience
- Local Transport Capital Block Funding – Highways Maintenance
- Pothole Action Fund
- National Productivity Investment Fund – Town Centre Redevelopment Improvement Project.

5.69 The expanded **Troubled Families Programme, Payments by Results (PBR) Scheme for Local Authorities** returns continued to be audited. All claims audited this year had an unqualified audit opinion. The protocols agreed with the service for producing evidence to support the claims, along with the continued independent review of sample claims by its staff to complement Internal Audit's examination of claims work, operated well and the process remains a collaborative one, with strong feedback from the Head of Service about the role that internal audit have played in supporting the service.

6. Compliance with Professional Standards

Head of Internal Audit Opinion

6.1 The Institute of Internal Auditors assessed the in-house team as fully meeting most of the Standards, as well as the Definition, Core Principles and the Code of Ethics in October 2017 (classified as "Generally Conforms", the highest rating).

Good assessments were achieved in relation to:

- reflection of the Standards
- focus on performance, risk and adding value
- the quality assurance and improvement programme.

Needs improvement assessments were given in relation to:

- coordinating and maximising assurance
- the efficiency of its operations.

Quality and Improvement Programme

- 6.2 I can confirm that I have maintained an appropriate Quality and Improvement Programme (QAIP) during the year for the in-house team or work undertaken by contractors when being managed by the in-house team. As required by the Standards, this consisted of:
- on-going supervision and review of individual audit assignments completed by in-house staff or contractors working to in-house staff
 - reporting on a limited set of performance targets to the Audit Committee each quarter (for all work done including that of external suppliers)
 - reviewing the independent external assessment of compliance with the Standards in October 2017 which is required at least every five years.
- 6.3 I have received assurance from external suppliers used that where they have undertaken work using their own audit approach, this is also compliant with the Standards.
- 6.4 **Appendix 3** summarises the results of the independent external assessment of compliance against each element of the Standards.
- 6.5 **Appendix 4** sets out the remaining actions that still need to be implemented arising from the:
- Head of Internal Audit's assessment of compliance as reported in the Annual Report presented to the Audit Committee in July 2018
 - independent external review.
- 6.6 A key focus for the team has been to ensure internal audit files and its audit approach complies with the new requirements of the General Data Protection Regulations.
- 6.7 Senior management has chosen not to implement the Standard relating to the appointment and removal of the Head of Internal Audit as the Council's normal HR practices would already mitigate this perceived potential risk.

Resourcing

- 6.8 The shared team with Castle Point has a resource structure consisting of:
- two Audit Managers (both in post)
 - two Senior Auditors (one post vacant)
 - four Auditors (two posts vacant)
 - outsourcing to accountancy firms to undertake audits, funded by the underspend on salaries from the vacant posts.
- 6.9 That leaves the shared team with three vacancies at 31st July. The salaries of the vacant posts are currently being used to fund audit resource brought in from suitable accountancy firms to assist with delivery of the audit plan. Therefore, during 2019/20, the continued lack of specific capacity within the team has had an impact on the service's performance and its ability to deliver its normal performance targets.

- 6.10 The expected requirements of the internal audit service into the future continue to evolve and the impact of Covid-19 is causing further consideration to take place. There is a growing requirement for better collaboration between risk functions (risk management, internal audit, compliance and other risk functions) as organisations evolve to embrace the fourth industrial revolution. Risk functions are being expected to be active participants, helping to achieve and protect the value of the organisation. Risks are becoming increasingly complex and interconnected, and without close risk function collaboration it is possible that blind spots to risk will arise for key stakeholders in the organisation that can then impact on strategic, financial and operational initiatives.
- 6.11 Developments continue to be monitored and assessed, with responsibility for corporate risk management having been transferred to the Head of Internal Audit, and the most appropriate team model to deliver those changing responsibilities utilising the financial resources available needs to be determined and agreed. Once the current team resourcing and integration activities are complete, this model will then be implemented to provide an appropriate mix of experienced staff, trainees who will be put through a relevant training programme and externally sourced skills. This will enable the team to continue to deliver the service required by the organisations that it serves.
- 6.12 The remainder of this report needs to be considered within this context.

Audit Plan 2019/20

- 6.13 The target was to deliver 100% of the Audit Plan by mid-May so that the Head of Internal Audit Annual Opinion could be included in the Council's Annual Governance Statement, which ordinarily has to be produced by 31 May. In the event, as a result of the impact of the Covid-19 pandemic the MHCLG revised the deadline so that this became 31 August 2020. As reported in the Internal Audit Quarterly Performance report most pieces of audit work had all of the audit work delivered, although not all of the reporting had been completed and finalised.
- 6.14 Appendix 2 shows the final status of the Audit Plan which is a comparison of actual audit work completed, against the work planned at the start of the year.

Other Performance Indicators

- 6.15 As much of the work this year has continued to be resourced through framework contracts, a more limited set of performance indicators have been reported upon.
- 6.16 Sickness absence during 2019/20 remained low at 2.9 days per FTE compared to a target of less than 5 days per FTE for staff.
- 6.17 Stakeholder surveys are designed to assess compliance with some of the less tangible elements of the UK Public Sector Internal Audit Standards (the Standards). During the year, officers were interviewed and surveyed in respect of our audit work completed by both in-house staff and contractors. **Appendix 5** summarises the final survey results for 2018/19. Overall, the level of satisfaction remains high, particularly with regard to internal audit adding value to the Council (100%).

Other Disclosures

6.18 As required by the Standards, I can confirm that the Internal Audit service has:

- operated in a manner that maintains its organisational independence throughout the year, with the exception of the transfer of risk management into the responsibilities of the Head of Internal Audit. As a result independent assurance over the delivery of risk management will need to be obtained from an alternative source in future
- been able to determine the scope of reviews, perform the work and report on its findings without interference neither has there been any inappropriate resource limitations imposed upon it.

7. Issues for the Annual Governance Statement

7.1 No issues have come to my attention this year, other than those already disclosed, that I believe need including in the Council's Annual Governance Statement.

8. Reasons for Recommendations

8.1 **The Head of Internal Audit Annual Report assists the Audit Committee to effectively discharge its responsibilities, as per the Terms of Reference, in the most effective way to achieve best practice, in obtaining the necessary assurances and being able to provide assurance to Full Council, including that the Annual Governance Statement appropriately reflects the conditions at the Council.**

Corporate Implications

9.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

9.2 Financial Implications

The Audit Plan has been delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

9.3 Legal Implications

The Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

9.4 People Implications

People issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

9.5 Property implications

Property issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

9.6 Consultation

The audit risk assessment, the Audit Plan and the results of audits are periodically discussed with the Chief Executive, Executive Directors and Directors before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Executive Directors and Directors before being finalised.

9.7 Equalities and Diversity Implications

The relevance of equality and diversity is considered during the initial planning stage of the each audit before the Terms of Reference are agreed.

9.8 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its corporate ambition and outcomes.

The main risks the team continues to manage are the:

- potential loss of in-house staff and the ability of the service to replace this resource in a timely manner
- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards
- need to maintain relationships with clients / partners while the service is being rebuilt.

9.9 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also considers whether it provides a value for money service periodically.

9.10 Community Safety Implications

These issues are only considered if relevant to a specific audit review.

9.11 Environmental Impact

These issues are only considered if relevant to a specific audit review.

10. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

11. Appendices

Appendix 1	Assurance Summary 2019/20
Appendix 2	Internal Audit Plan 2019/20 as at 31 July 2020
Appendix 3	Summary Assessment of Compliance with UK Public Sector Internal Audit Standards 2019/20
Appendix 4	Compliance with the UK Public Sector Internal Audit Standards Action Plan as at 31 July 2020
Appendix 5	Stakeholder Surveys, Compliance with Professional Standards

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Appendix 1: Assurance Summary 2019/20

Audit Plan Areas	Level of Assurance				
	High	Satisfactory	Partial	Minimal	No Opinion
Managing the Business			<ul style="list-style-type: none"> Shareholder Board 18-08 (2018/19) 		
Managing Service Delivery Risks		<ul style="list-style-type: none"> Contract Management of Children's Centres 18-15 (2018/19) 	<ul style="list-style-type: none"> Adult Social Care Financial Assessments 19-22 Data Quality, Children's Services 19-23 		<ul style="list-style-type: none"> In House Foster Carers 19-20 Independent Reviewing Officers 19-10
Key Financial Systems		<ul style="list-style-type: none"> Housing Benefits 19-39 Council Tax 19-40 	<ul style="list-style-type: none"> Payroll 18-04 (August 2019) Social Care Debt Collection 19-21 		
Audits Revisited		<ul style="list-style-type: none"> Emergency Planning 19-12 Business Continuity 19-13 SEAT Governance Arrangements 19-08 	<ul style="list-style-type: none"> Management Response to Quality Assurance Audits 18-42 (2018/19) 		

Appendix 1: Assurance Summary 2019/20

Audit Plan Areas	Level of Assurance				
	High	Satisfactory	Partial	Minimal	No Opinion
		<ul style="list-style-type: none"> Building control 19-07 	<ul style="list-style-type: none"> Social Care Payments to Individuals & Providers Children's – 18-37 (2018/19) 		

Appendix 1: Assurance Summary 2019/20

Grant Claims	Level of Assurance	
	Unqualified	With Qualification
	<ul style="list-style-type: none"> • Disabled Facilities Capital Grant Determination • Local Transport Capital Block Funding – Flood Resilience • Local Transport Capital Block Funding – Highways Maintenance • Pothole Action Fund • National Productivity Investment Fund – Town Centre Redevelopment Improvement Project. 	

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Appendix 2: Internal Audit Plan 2019/20

Managing the Business			
All Outcomes			
All	Risk Management Strategy To lead on the Council's work to embed a robust and efficient risk management framework into its wider governance arrangements.	No	Risk Management Policy Statement and Strategy agreed by Cabinet September 2019. Agreed Implementation Action Plan to test and roll out the new approach between October 2019 to May 2020. Updated Risk Management Strategy approved by Cabinet. Implementation in progress, but timelines will need to be extended due to the disruption caused by Covid-19.
PL (ST)	IT Risk Assessment To undertake a baseline assessment of IT risks against a standard good practice framework and use this to develop the IT element of the Audit Plan going forward.	No	2019/20 work complete. To be revisited as part of Audit Plan for 2020/21 to take account of the new service delivery arrangements currently being implemented.
Implementing Action Plans			
F&R (JC)	Shareholder Board To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	Draft report being discussed with the service. Completed April 2020. Completed April 2020.
L&D (JW)	Emergency Planning To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	
L&D (JW)	Business Continuity To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	

Appendix 2: Internal Audit Plan 2019/20

T (JR)	Information Governance, General Data Protection Regulations To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	Draft report being discussed with service.
Managing Service Delivery Risks			
Pride and Joy By 2050 Southenders are fiercely proud of and go out of their way to champion what our city has to offer.			
PL (NH)	Local Transport Capital Block Funding - Flood Resilience To certify, in all significant respects, that the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
PL (NH)	National Productivity Investment Fund – Town Centre Redevelopment Improvement Project To certify, in all significant respects, that the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
Implementing Action Plans			
No work required			
Safe and Well By 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives			
PE (BM)	Children Centres Contract Management (2018/19) To assess whether the contract is being effectively managed to ensure the planned outcomes for children and families are being delivered in compliance with the specified performance and/or quality standards, at the correct price.	No	Completed July 2019.

Appendix 2: Internal Audit Plan 2019/20

PE (GH)	Homelessness and Rough Sleeping To assess the robustness of arrangements for quickly and effectively supporting people facing homelessness to prevent this from happening and where it does that this is brief and non-recurrent.	Yes	Draft report with the Audit Manager.
PE (JOL)	Independent Reviewing Officers To assess the effectiveness of Independent Reviewing Officers in ensuring children's needs are met and their outcomes improved through the support and services that they receive, enabling them to reach their potential.	No	Completed July 2020.
PE (JL)	Commissioning of a New Service To assess whether commissioning decisions were evidence based through clear and concise commissioning proposals, in order to meet the needs and outcomes required.	Yes	Draft Terms of Reference with Audit Manager. Work halted as a result of a wholesale strategic review of the Council's commissioning function and activity. The work has been included in the 2020/21 Audit Plan and priority will be reassessed as part of the review of the Audit Plan being reported to the October 2020 Audit Committee.
PE (JL)	Outcome Realisation of a Commissioned Service To assess whether the delivery of a commissioned service is being effectively managed to ensure the planned outcomes and / or benefits for residents anticipated by the commissioning process are delivered.	Yes	Draft Terms of Reference with Audit Manager. The work was to be focused around the 0-5 Service (Health Visiting) which was brought back in house from April 2019. Work halted as the Health Visiting Service operates within the Director of Public Health's service which has been significantly impacted by Covid-19. The work has been included in the Risk Watch List for 2020/21 and its priority will be reassessed as part of the review of the Audit Plan being reported to the October 2020 Audit Committee.

Appendix 2: Internal Audit Plan 2019/20

PE (GH)	Private Sector Housing To assess the effectiveness of the Private Sector Housing offer in regeneration of the housing market to ensure inclusive, healthy and safe places to live.	Yes	Moved to 2020/21 Audit Plan. Service moved to Executive Director Neighbourhoods & Environment. Management now responsible in the new service area is currently reviewing processes and resources with the team.
PE (JOL)	In House Foster Carers To assess the effectiveness of the 'Fostering Team Action Plan' in ensuring appropriate processes are developed to allow for statutory requirements to be met and good practice followed, supporting safe and high quality placements for children. (Please note the focus of the audit has changed as a result of the action plan developed after the 'Diagnostic and review of fostering services' undertaken as part of the Partner's in Practice arrangements).	Yes	Completed May 2020.
PL (CR)	Environmental Health To assess whether there are robust arrangements in place to ensure concerns and referrals received are properly and effectively dealt with and statutory responsibilities discharged to protect and improve the wellbeing of residents.		Work in progress halted due to end of year service priorities. Agreed with service to resume audit work May 2020. This was ahead of Covid-19 so timing will need to be renegotiated. Work suspended as a result of Covid-19 and the impact on the service area dealing with issues arising from that. The work has been included in the 2020/21 Audit Plan and its priority will be reassessed as part of the review of the Audit Plan due to be reported to the October 2020 Audit Committee.
PE (SB)	Deprivation of Liberty Safeguards (DoLS) To assess the robustness of arrangements which ensure when a person is deprived of liberty, is necessary and in their best interests.		Removed from the 2019/20 Audit Plan as initial audit enquiries identified that work is underway to fundamentally change the arrangements for how DoLS are managed. The audit has been added to the Risk Watch List for the 2020/2021 Audit Plan.

Appendix 2: Internal Audit Plan 2019/20

PE (SB)	Adult Social Care Financial Assessments To assess the robustness of the process that determines eligibility for financial support towards care needs to ensure it is accurate, transparent and accessible.	Yes	Completed July 2020.
PE (MB / JOL)	Data Quality – Children’s Services To assess the robustness of arrangements to confirm that data entered into the care management system (LCS) by social care staff, which is then used to produce performance indicators for senior management, is reliable.	No	Completed July 2020.
PL (PG)	Building a Safer Future To assess the Building Control team’s preparedness for implementing the changes to Building Regulations and Fire Safety emanating from the Hackitt Enquiry published in December 2018.	No	Removed from the 2019/20 Audit Plan as the required changes emanating from the Hackitt Enquiry have not been confirmed by government.
PE (JOL)	Early Help and Family Support Quality Assurance Framework To assess the effectiveness of the Assurance Framework in supporting the Edge of Care Team to ensure that the right decisions are made to meet children’s needs and keep them safe.	No	Removed from the 2019/20 Audit Plan as the 2019 Ofsted Inspection confirmed that Early Help Services ‘work effectively with families to promote children’s welfare and reduce risk’, and stated ‘Families are involved in evaluating the help they receive; they report that things are better following intervention’.
PE (JOL)	Financial assistance duties under Section 17 To assess the suitability of arrangements in place to identify, approve, monitor and understand spend in relation to the Section 17 budget, to ensure the most effective use of financial resources on an ongoing basis.	No	Added to the audit plan February 2020. Draft report with the Head of Internal Audit.
PE (GH)	Disabled Facilities Grant To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
PE (JOL)	Troubled Families To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Report on the July to September 2019 submissions completed September 2019. Completed April 2020

Appendix 2: Internal Audit Plan 2019/20

Implementing Action Plans			
PL (PG)	Building Control To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	Completed December 2019.
PE (JOL)	Management Response to Quality Assurance Audits (2018-19) To assess whether the actions agreed in the original audit dated July 2018 have been implemented and are now effectively embedded into the day-to-day operation of the service.	No	Completed October 2019.
PE (JOL)	Social Care Payments to Individuals and Providers – Children (2018-19) To assess the robustness of the arrangements identified in the previous memo issued in June 2018, in ensuring that accurate and timely social care payments are made to individuals and providers.	Yes	Completed October 2019.
<p style="text-align: center;">Active and Involved</p> <p style="text-align: center;">By 2050 we have a thriving, active and involved community that feel invested in our city</p>			
Implementing Action Plans			
PL (PG)	South Essex Active Travel (SEAT) Governance Arrangements To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	Completed May 2020.

Appendix 2: Internal Audit Plan 2019/20

Opportunity and Prosperity By 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people			
T (JR)	Hayes Contract Management To assess whether there are robust arrangements in place to ensure that the contract is delivering the planned outcomes and / or benefits in compliance with the specified performance and quality standards, at the correct cost.	Yes	Date for work to be re-determined with the service, as the service is currently focused on Covid-19 initiatives and ensuring optimum utilisation of the Council's human resources. Resource lost due to contractor scaling down staffing resources in response to Covid-19. The work has been included in the 2020/21 Audit Plan and priority will be reassessed as part of the review of the Audit Plan being reported to the October 2020 Audit Committee.
PL (PG)	Parking Enforcement Income Collection To assess the effectiveness of arrangements for the timely collection of this income in line with the expectations set out in the Corporate Debt Policy (November 2017).	Yes	Terms of reference being drawn up. Now added to 20/21 Audit Plan.
PL (PG)	Rechargeable Works To assess the effectiveness of arrangements for recharging third parties for the cost of making good accidental damage to Council assets.	Yes	Feedback from the work undertaken to date is being prepared with a view to developing an action plan alongside the service to help strengthen existing arrangements and maximise recharges to third parties. Completion has been stalled as a result of a combination of the impact of the increased workload the Highways service has experienced due to Covid-19 and supporting the borough in responding effectively to changing government requirements and a loss of resource from the in house audit team.

Appendix 2: Internal Audit Plan 2019/20

Implementing Action Plans			
No work required			
<p style="text-align: center;">Connected and Smart</p> <p style="text-align: center;">By 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure</p>			
PL (ST)	IT Audit – Focus: Disaster Recovery and Continuity Planning The focus of these audits has now been determined following the IT Risk Assessment work (see Managing the Business above).	Yes	Draft report with the Head of Internal Audit.
PL (ST)	IT Audit – Focus: Remote Working The focus of these audits has now been determined following the IT Risk Assessment work (see Managing the Business above).	Yes	Draft report being prepared.
PL (PG)	Local Transport Capital Block Funding - Highways Maintenance To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
PL (PG)	Pothole Action Fund To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
Implementing Action Plans			
No work required			

Appendix 2: Internal Audit Plan 2019/20

Key Financial Systems			
All Outcomes			
T (JR)	Payroll (2018/19) To assess the robustness of arrangements which ensure staff are paid the right amount at the right time in line with Council policies and legislative requirements.	Yes	Completed August 2019.
F&R (JC)	Housing Benefits To assess whether the key controls effectively prevent or detect material financial errors, on a timely basis, so that information from the system can be relied upon when producing the Council's statement of accounts.	Yes	Completed April 2020
F&R (JC)	Council Tax To assess whether the key controls effectively prevent or detect material financial errors, on a timely basis, so that information from the system can be relied upon when producing the Council's statement of accounts.	Yes	Completed April 2020
F&R (JC)	Accounts Payable – Batch Input Files (BIF) To assess the robustness of arrangements to ensure that these payment files are accurate and secure.	Yes	Terms of reference being drawn up. Work suspended as a result of loss of resource in the in-house audit team. The work has been added to the 2020/21 Audit Plan and priority will be reassessed as part of the review of the Audit Plan being reported to the October 2020 Audit Committee.

Appendix 2: Internal Audit Plan 2019/20

F&R (JC)	Income Management System To assess the robustness of the new system to ensure that all income is accounted for in an accurate, secure and timely manner.	Yes	Initial planning and scoping work completed. Terms of reference to be agreed with service. Resource lost as a result of contractor scaling down staffing resources in response to Covid-19. The work has been added to the Risk Watch List as part of the 2020/21 Audit Plan and priority will be reassessed as part of the review of the Audit Plan being reported to the October 2020 Audit Committee.
PE (SB)	Social Care Debt Collection To assess the effectiveness of arrangements for the timely collection of this income in line with the expectations set out in the Corporate Debt Policy (November 2017).	Yes	Completed July 2020.
Implementing Action Plans			
T (JR)	Payroll To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	New addition to the Audit Plan from the Risk Watch list (see Appendix 2a). Fieldwork nearing completion.
Advice and Support			
All Outcomes			
PL (AL)	Cyber Security To provide support and challenge over the robustness of the arrangements for implementing the improvement actions identified by the Local Government Association's 'stock take' of resilience arrangements against cyber-attacks.	Yes	Timing being aligned to the council's internal reporting arrangements for updates arising from the LGA 'stock take'. Progress is being reported to the Good Governance Group at each meeting. Work complete until the next independent 'stock take' is undertaken.

Appendix 2: Internal Audit Plan 2019/20

All	Transforming Together & Southend 2050 To provide support and challenge to the organisation as these continue to develop.	No	The Head of Internal Audit has been supporting the work of the Transforming Together Team this quarter as work on 'simple and effective governance' develops. Work in progress, but this will need to be re-visited following the impact caused by Covid-19 and the Head of Internal Audit will continue to support. Work completed for 2019/20.
All	Information Asset Register Group To provide support and challenge to the group as the Information Asset Register continues to develop.	No	Removed from the Audit Plan as the Information Asset Register Group did not meet.
GGG ¹	Subject Access Requests Children's Services To provide support and challenge around the robustness of arrangements for responding to these requests in the required time frames. (Working with the Transformation Service's Service Design Team)	No	Work halted after improved response times to Subject Access requests resulted from the recruitment of extra staff and additional training being provided. Good Governance Group continue to receive updates on response times at each meeting. Work complete.
<p style="text-align: center;">Pride and Joy</p> <p style="text-align: center;">By 2050 Southenders are fiercely proud of, and go out of their way, to champion what our city has to offer.</p>			
No work planned.			

¹ Good Governance Group

Appendix 2: Internal Audit Plan 2019/20

Safe and Well By 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives			
PL (AL)	Fire Safety To provide support and challenge to the working group to ensure that fire safety arrangements are appropriate and effectively managed to make buildings safe and feel safe, now and in the future.	Yes	Work in progress. Progress stalled as a result of loss of resource in the in-house audit team. Interim feedback has been provided to services as work has been undertaken and during the annual audit planning process. Added to the 2020/21 Audit Plan for completion.
Active and Involved By 2050 we have a thriving, active and involved community that feel invested in our city			
No work planned.			
Opportunity and Prosperity By 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people			
PL (EC)	Better Queensway Joint Venture To provide support and challenge as the organisation develops and implements governance arrangements to monitor the delivery of the programme through the Joint Venture Limited Liability Partnership.	Yes	Support being provided to the Project team and the Council's Partnership Board to assess, capture and manage risk. Further work planned with the Board for January 2020. Work completed for 2019/20. The Risk Register is now regularly presented to the Council's Partnership Board. See Audit Plan 2020-21 for next phase of audit work.
All	Corporate Establishment To provide support and challenge over the development of a corporate establishment, with the purpose of ensuring a complete and accurate personnel establishment list within Agresso and realisation of associated benefits.	Yes	Timing to be determined once the project timeline has been agreed. Now added to the 2020-21 Risk Watch List. Need to determine the current priority of this piece of work given disruption caused by Covid-19.

Appendix 2: Internal Audit Plan 2019/20

PE / F&R (BM / JC)	Use of the Basic Need Capital Grant for Schools To support the Council in determining its role and responsibilities in ensuring value for money for the provision of increased pupil places.	Yes	Completed April 2019.
<p style="text-align: center;">Connected and Smart</p> <p style="text-align: center;">By 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure</p>			
PL (PG)	Highways Improvement Plan To provide support and challenge over the robustness of the arrangements for implementing the agreed improvement actions and for measuring the positive impact of the actions.	No	<p>Feedback provided covering the clarity of ownership and agreed target dates for actions detailed in the Improvement Plan.</p> <p>Recently appointed Executive Director Neighbourhoods and Environment is reviewing current plan to address the above, as well as ensuring clarity of actions and outcomes.</p> <p>Arrangements for monitoring delivery of the Improvement Plan will be considered for potential inclusion in the 2020/2021 Audit Plan.</p> <p>Completed November 2019.</p> <p>Also included in the Risk Watch List for the 2020/21 Audit Plan.</p>

Appendix 2: Internal Audit Plan 2019/20

Managing Service Delivery	
<p>Delivering the internal audit service involves:</p> <ul style="list-style-type: none"> • audit planning and resourcing • managing Audit Plan delivery which includes overseeing contractor work • reporting to senior management and the Audit Committee. <p>Implementing the outstanding actions arising from the external quality assessment undertaken by the Institute of Internal Auditors undertaken in October 2017.</p>	
Risk Watch List	
PE	The effectiveness of the Children's Services Quality Assurance and Practice Framework
PE	Adherence to terms and conditions of the Early Years grant funding (advice and support 2019/20)
PE	Delivery of outcomes from the block contract with Southend Care
PE	Monitoring the delivery of outcomes for older people placed in residential care
PE	Implementation of the Special Education Needs Inspection Action Plan
PE	Essex Partnership University NHS Foundation Trust S75 Agreement
F&R	Counter Fraud and Investigations delivery against the Service Level Agreement with Thurrock Council (New alternative arrangements now being implemented)
PL	Management of the ICT Liquid Logic and / or Logicalis contract
PE	Delivery of outcomes from the Locality delivery model in Adult Social Care
PL	Environmental Health (Now added to the 2019/20 Audit Plan)
T	Payroll revisited (Now added to the 2019/20 Audit Plan)
PE	Vibrance contract management revisited
T	Governance architecture for service delivery
F&R	Implementation of the automated P2P new supplier process (advice and support 2019/20)
PE	Deprivation of Liberty Safeguards (DoLS)
PL	Building a Safer Future

These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit.

Appendix 2a: Internal Audit Plan 2019/20

Audit Activities	Resource allocation
Managing the Business	3%
Managing Service Delivery Risks	42%
Key Financial Systems	13%
Grant Claims	6%
Advice and Support	7%
Follow Ups	8%
Contingency	11%
Managing Delivery of the Audit Plan	10%
Total	100%
Total Council Audit Plan Days	583

The days required to revisit and retest action plans from previous reports are included under each heading.

The Total Council Audit Plan Days reflects the higher cost of buying in external contractors to cover internal vacancies.

Analysis Over Departments		
All	Cross Cutting	4%
F&R	Finance and Resources Service	11%
L&D	Legal and Democratic Services	3%
T	Transformation Service	4%
PE	People	32%
PL	Place	25%
All	Contingency	11%
All	Managing Delivery of the Audit Plan	10%
	Total	100%

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**Appendix 3 Summary Assessment of Compliance with
UK Public Sector Internal Audit Standards 2019/20**

Ref	Standard	Generally Conforms	Partial Conforms	Does Not Conform	N/A
Ref	Definition of Internal Auditing				
Ref	Code of Ethics	✓			
1	Integrity	✓			
2	Objectivity	✓			
3	Confidentiality	✓			
4	Competence	✓			
Ref	Attribute Standards				
1000	Purpose, Authority and Responsibility		✓		
1010	Recognising Mandatory Guidance in the Internal Audit Charter		✓		
1100	Independence and Objectivity	✓			
1110	Organisational Independence		✓		
1111	Direct Interaction with the Board		✓		
1112	Head of Internal Audit Roles Beyond Internal Auditing	✓			
1120	Individual Objectivity	✓			
1130	Impairments to Independence or Objectivity	✓			
1200	Proficiency and Due Professional Care	✓			
1210	Proficiency	✓			
1220	Due Professional Care	✓			
1230	Continuing Professional Development	✓			
1300	Quality Assurance and Improvement Programme	✓			
1310	Requirements of the Quality Assurance and Improvement Programme	✓			
1311	Internal Assessments	✓			
1312	External Assessments	✓			

**Appendix 3 Summary Assessment of Compliance with
UK Public Sector Internal Audit Standards 2019/20**

Ref	Standard	Generally Conforms	Partial Conforms	Does Not Conform	N/A
1320	Reporting on the Quality Assurance and Improvement Programme	✓			
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	✓			
1322	Disclosure of Non-conformance	✓			
Ref	Performance Standards				
2000	Managing the Internal Audit Activity	✓			
2010	Planning	✓			
2020	Communication and Approval	✓			
2030	Resource Management	✓			
2040	Policies and Procedures	✓			
2050	Coordination and Reliance		✓		
2060	Reporting to Senior Management and the Audit Committee	✓			
2070	External Service Provider and Organisational Responsibility for Internal Audit		✓		
2100	Nature of Work	✓			
2110	Governance	✓			
2120	Risk Management	✓			
2130	Control	✓			
2200	Engagement Planning	✓			
2201	Planning Considerations	✓			
2210	Engagement Objectives	✓			
2220	Engagement Scope	✓			
2230	Engagement Resource Allocation	✓			
2240	Engagement Work Programme	✓			

**Appendix 3 Summary Assessment of Compliance with
UK Public Sector Internal Audit Standards 2019/20**

Ref	Standard	Generally Conforms	Partial Conforms	Does Not Conform	N/A
2300	Performing the Engagement		✓		
2310	Identifying Information		✓		
2320	Analysis and Evaluation	✓			
2330	Documenting Information	✓			
2340	Engagement Supervision	✓			
2400	Communicating Results	✓			
2410	Criteria for Communicating	✓			
2420	Quality of Communications		✓		
2421	Errors and Omissions	✓			
2430	Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'				✓
2431	Engagement Disclosure of Non-conformance		✓		
2440	Disseminating Results	✓			
2450	Overall Opinions	✓			
2500	Monitoring Progress	✓			
2600	Resolution of Senior Management s Acceptance of Risks	✓			
	TOTAL OUT OF 64	53	10	0	1

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Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31 July 2020

Action required	Current status	Date
Attribute Standards		
1100 Independence and Objectivity		
1111 Direct Interaction with the Board		
Re-establish annual Audit Committee performance assessments in line with good practice.	<p>New good practice guidance was published in May 2018. Good practice workshop undertaken with the Audit Committee in September 2018.</p> <p>An assessment of compliance with CIPFA's best practice expectations undertaken at the end of 2018/19, report with proposed actions was taken to Audit Committee in July 2019.</p>	HoIA, Ongoing
1200 Proficiency and Due Professional Care		
1230 Continuing Professional Development		
Continue with the recruitment programme for professional audit staff during 2017/18.	<p>During 2019/20 both an Auditor and Senior Auditor were recruited and work has been underway to integrate them into the in-house team.</p> <p>The Salaries of the three remaining vacant posts are currently being used to fund audit resource brought in from suitable accountancy firms to assist with delivery of the audit plan.</p> <p>The expected requirements of the internal audit service into the future continue to evolve and the impact of Covid-19 is causing further deliberations to take place both at an industry and local level. This continues to be monitored and assessed to determine the most appropriate team model utilising the financial resources available. Once the current team resourcing and integration activities are complete, revised arrangements will be implemented to</p>	HoIA, Ongoing

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31 July 2020

Action required	Current status	Date
	provide an appropriate mix of experienced staff, trainees who will be put through a relevant training programme and externally sourced skills. This will enable the team to deliver the internal audit service required by the organisations that it serves.	
Create and then recruit to the Business Support function that will support both the Internal Audit and Counter Fraud & Investigation Directorate (CFIT).	During 2019/20 the shared service with Thurrock Council for the delivery of the CFIT ended and the service was brought back in-house. Work is underway to re-design the service to meet the current needs of both Southend Borough Council and South Essex Homes. The capacity of the Business Support team to deliver the amended workload will continue to be monitored.	Completed March 2019
1300 Quality Assurance and Improvement Programme		
Re-introduce cold file reviews when more fully staffed and include a sample of contractor files.	This action has been re-assessed and deemed not to be necessary at the current time due to: <ul style="list-style-type: none"> - files for inhouse audits being subject to detailed review at the time of the audit, ahead of findings being finalised. - contractor work being subject to suitable challenge and scrutiny by both AM and HOIA ahead of reporting to the business. 	No longer being pursued at the current time
1311 Internal Assessments		
Reinstate a full set of performance indicators once the team is more fully resourced with in-house staff.	This was built into the Audit Strategy presented to Audit Committee in April 2020. Compliance continues to be monitored and reported to Audit Committee on a regular basis.	Implemented

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31 July 2020

Action required	Current status	Date
Performance Standards		
2000 Managing the Internal Audit Activity		
2010 Planning		
Summarise the activities considered significant enough to warrant periodic, independent challenge by internal audit. Present the list periodically to senior management and the Audit Committee as part of the audit planning process.	This was part of the papers drawn up to support the 2020/21 Audit Plan.	Implemented
Consider how to split out time allocated to a review on: <ul style="list-style-type: none"> • pure audit work • advice and support. 	The time recording system has been amended to capture advice and support given throughout audits.	Implemented
2030 Resource Management		
When resources allow, arrange more regular meetings with individual Group Managers as required, to help progress work in the Audit Plan.	These sessions have been taking place throughout 2019/20 as audits have been planned and set up. Since Covid-19, regular catch ups with the business are taking place via Microsoft TEAMS.	AMs, Ongoing
2040 Policies and Procedures		
Refresh the Audit Manual and supporting forms to reflect: <ul style="list-style-type: none"> • updates in the Standards • current working practices • any issues arising from the independent external assessment. 	Some of this work is still in progress. It will take longer than anticipated to complete due to the changes in the senior management team. Work is also needed to update the Audit Manual to ensure the audit approach is compliant with the General Data Protection Regulations (GDPR) and reflects the actual procedures now followed by the team.	AMs, Ongoing

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31 July 2020

Action required	Current status	Date
2050 Co-ordination and Reliance		
At all clients, further develop the "other assurance" element of the audit risk assessments particularly with regard to corporate business management processes, as part of the 2018/19 audit planning round.	This work is now established as part of the Audit Planning process. This has also been developed throughout the year as audit work is completed.	AMs, Ongoing
2100 Nature of Work		
2110 Governance		
Assess whether an ethical governance audit should be included in 2018/19 Audit Plan.	This was considered as part of the audit planning for 2020/21, and will remain on the issues to be considered for inclusion at each planning assessment.	HolA, ongoing
2200 Engagement Planning		
2210 Engagement Objectives		
Make sure that the audit approach makes the links to performance management as part of the planning process.	<p>The audit planning form requires auditors to consider what criteria or measures of success management have established to determine whether the activity's objectives are being achieved.</p> <p>Focus is being given to assess the effectiveness and appropriateness of these measures in future audits.</p>	Implemented

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31 July 2020

Action required	Current status	Date
2300 Performing the Engagement		
2330 Documenting Information		
Set up a project to check all files and destroy whatever is necessary to comply with the Retention Policy.	<p>Document disposal and retention review has been completed on all historic client files. From 2019/20 all files have been checked during the audit closedown process to ensure compliance.</p> <p>A refreshed HR Retention Schedule has been published and work is currently focused on disposing of personnel related Personal Data held in electronic personnel files.</p> <p>A Disposal and Retention Log is in use.</p>	Implemented and ongoing
2400 Communicating Results		
2410 Criteria for Communicating		
<p>Include an instruction in the operational protocol that meetings should always be held to:</p> <ul style="list-style-type: none"> • feedback findings at the conclusion of fieldwork • discuss the draft report. 	<p>Operational protocol documents for in house staff (Audit Management Checklist) and the “Ways of Working” document with contractors are clear about discussing draft reports with clients.</p> <p>Both documents need to be amended to clarify expectations that:</p> <ul style="list-style-type: none"> • findings will be fed back during the audit, so there are no surprises • all auditors will have a final feedback meeting on conclusion of the fieldwork. 	Implemented

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31 July 2020

Action required	Current status	Date
Reassess the reporting templates as part of updating the Audit Manual, to see how underlying issues with the Council's governance arrangements could be highlighted.	This will be reassessed after senior management have undertaken the review of the risk management and governance arrangements that is currently underway as part of the Transforming Together programme.	AMs, Ongoing
2420 Quality of Communications		
Build triggers into the Audit Manual that remind staff to keep clients informed of when reports can be expected and if there are delays in producing them. ∞	Work has been undertaken to: <ul style="list-style-type: none"> • amend the Planning, Fieldwork and Reporting sections of the Audit Management Checklist for in house staff • add this to the "Ways of Working" document with contractors. <i>(Also see Standard 2030 About Resource Management regarding monitoring delivery of work which also contributes to this action).</i>	Implemented
Reinstate target for issuing draft reports once the team is more fully resourced.	A tracking system has been implemented and this target will be reported on for audits undertaken in 2020/21 onwards.	Implemented and ongoing
Complete the project on upgrading / refreshing how we use APACE, our time recording / performance management data base.	Current time recording system has been reviewed and is considered adequate.	Implemented

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31 July 2020

Action required	Current status	Date
Use APACE effectively to timetable the delivery of audits and monitor progress against both budgets and timelines.	<p>APACE, in conjunction with the Internal Audit Resource Schedule, is now being used to:</p> <ul style="list-style-type: none"> • allocate, phase and cost audits • allow the Business Support Team to monitor the delivery of audits against both the Audit Plan and the financial profile. <p>Reports on job budget monitoring are being provided to the team on a weekly basis.</p> <p>Opportunities to do this more effectively are being considered in the projected noted above.</p>	Implemented
<p>Include a requirement in the Audit Manual about:</p> <ul style="list-style-type: none"> • issuing the guidance to and discussing it with clients within the draft terms of reference • attaching it as an appendix to the report. 	This is now being included in all reports.	Implemented
2431 Engagement Disclosure of Non-Conformance		
Consider updating the Audit Manual with a small section covering this particular situation and referencing PS2431.	<p>This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team.</p> <p>In addition, a prompt will be included in the reporting template to ensure any incidents of non-conformance have been considered and managed in line with audit manual guidance.</p>	AMs, Ongoing

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31 July 2020

Action required	Current status	Date
2500 Monitoring Progress		
Introduce the process for management to provide the Audit Committee with this assurance for reports with high and satisfactory audit opinions.	The Business Support Officer and Auditor are currently working on this project with Council officers that operate the Pentana system to identify an automatic reporting process from Pentana.	BSM and Auditor, Ongoing
Finalise the arrangements for reporting to Audit Committee on management sign off of action plans for audit reports with high or satisfactory opinions.	The Business Support Officer and Auditor are currently working on this project with Council officers that operate the Pentana system to identify an automatic reporting process from Pentana.	BSM and Auditor, Ongoing
Design the content and format of a report to go to Audit Committee, for each client that shows the progress made by services in addressing agreed actions, for each live audit report.	The Business Support Officer and Auditor are currently working on this project with Council officers that operate the Pentana system to identify an automatic reporting process from Pentana.	BSM and Auditor, Ongoing

8
Key:

- HoIA, Head of Internal Audit
- AM, Audit Manager
- BSM, Business Support Manager

Appendix 5: Stakeholder Surveys, Compliance with Professional Standards

Setting up and planning the audit (PSIAS 1200 / 2200)		%
1	Did we show a good level of knowledge and understanding of your service when discussing the potential scope and objective to be covered by the audit before fieldwork took place?	100
Performing the audit (PSIAS 2300)		
2	Did we work effectively with you when doing the audit to minimise the impact on your service?	100
3	Were we able to talk knowledgeably with you about information provided to us and queries we had during the audit?	94
Communicating results (PSIAS 2400) and Improving governance, risk management and control processes (PSIAS 2100)		
4	Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?	93
5	Did we effectively explain to you where we felt action was required to improve your arrangements and why?	100
6	Was the report fair and reflective of the work done by audit and the issues found as discussed with you?	94
Independence and Objectivity (PSIAS 1100)		
7	Did we provide relevant evidence to back up our findings if required?	100
8	At the end of the audit, did you understand the rationale for the overall opinion given?	100
Managing the Internal Audit Activity (PSIAS 2000)		
9	Do you think internal audit adds value to the Council?	100

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Southend-on-Sea Borough Council

Report of the Executive Director (Finance and
Resources)

to

Audit Committee

on

12 August 2020

Report prepared by Shaun Dutton, Acting Senior
Investigations Officer

Agenda
Item No.
6

Counter Fraud & Investigation Team: Quarterly Performance Report

A Part 1 Public Agenda Item

1. Purpose of report

- 1.1 To update the Audit Committee on the progress made by the Counter Fraud & Investigation Team (CFIT) in delivering the Counter Fraud Strategy and Work Programme for 2019/20 and to introduce the Work Plan for 2020/21.

2. Recommendation

- 2.1 **The Audit Committee notes the performance of the Counter Fraud & Investigation Team over the period since the last meeting.**

3. Introduction

- 3.1 The Counter Fraud & Investigation Team (CFIT) was formed on 7 October 2019 following the dissolution of the previous shared service agreement with Thurrock Council.
- 3.2 Although the team made a good start with maintaining its core functions, renewed relationships across the Council and achieved an increase in referrals, it has also experienced significant challenges from the loss of staff and the Covid-19 pandemic.
- 3.3 As a result, the team has not been able to fully meet its aspirations detailed in the previous year's Work Plan and has struggled to get many of its current cases to a satisfactory resolution due to Government restrictions on interviewing suspects during the Covid-19 pandemic.
- 3.4 However, two experienced investigators have now been recruited and joined the team which goes some way to meeting the team's human resource deficit. This influx of staff makes the team better equipped to perform its core functions and to start a programme of proactive fraud detection and Council fraud protection / prevention initiatives.

- 3.5 Furthermore, the recent downgrading of the Government's virus threat level and the relaxation of restrictions presents an opportunity to commence the operational work that is vital to bring many of our cases to resolution.
- 3.6 This work, in the form of visiting properties and members of the public, has now been started following the completion of detailed risk assessments and consultation with the Council's Health and Safety representatives. At the time of writing, work is underway to identify an appropriate location to conduct suspect interviews in a safe way.
- 3.7 A further consequence of the Covid-19 pandemic and lack of human resource is that the concentration on the team's active workload that the team in place was focussed upon has meant that less activity than was planned has been undertaken to develop the team's capabilities and joint working potential with other agencies.
- 3.8 However, steps have been taken to increase our engagement with our key stakeholders: South Essex Homes (SEH) and the Revenue and Benefits Teams. We now provide reports to SEH's Executive Management Team and their Audit and Risk Committee, as well as monthly reports to their operational managers. Once the new investigators have been established, both these stakeholders will be assigned a Single Point of Contact within the team. A joint working agreement has been developed with SEH to mirror what is in place with the Revenue and Benefits Teams.
- 3.9 A Work Plan for 2020/21 (Appendix 1) has been drafted to detail the proactive and prevention / protection initiatives that the team intend to undertake. This plan is currently tentative and will be reviewed and revised as the team evolves within the new working environment, the strengths and weaknesses of the new team members becomes clearer and the active investigation workload develops.

4. **Fighting Fraud and Corruption Locally; A strategy for the 2020s**

- 4.1 In April 2020, the updated counter fraud and corruption strategy for local government was published: *Fighting Fraud and Corruption Locally: A strategy for the 2020s* (FFCL - Appendix 2).
- 4.2 This builds on the successes and lessons learned from previous strategies and is the blueprint for a counter fraud and corruption strategy for all local authorities.
- 4.3 The scale of fraud and corruption is estimated through several reports:
- The Government Economic Crime Plan 2019 estimates that fraud constitutes a third of all crime in the UK
 - The National Fraud Office estimated in 2013 that fraud may be costing the UK £52bn a year and £2.1bn to local authorities specifically
 - The Annual Fraud Indicator 2017 estimated the loss to the public sector to be £40.4bn with the loss to local authorities totalling £7.8bn, £4.3bn of which may be procurement fraud.
- 4.4 The key principles of the strategy are presented in four 'pillars':
- **Govern:** having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation
 - **Acknowledge:** accessing and understanding fraud risks; committing the right support and tackling fraud and corruption; demonstrating a robust anti-fraud response and communicating the risks to those charged with Governance

- **Prevent:** making the best use of information and technology; enhancing fraud controls and processes; developing a more effective anti-fraud culture and communicating activity and successes
- **Pursue:** prioritise fraud recovery and the use of civil sanctions; developing the capability and capacity to punish offenders; collaboration across geographical and sectoral boundaries and learning lessons and closing the gaps.

4.5 These pillars are realised through six ‘themes’:

- **Culture:** create a culture where fraud and corruption are unacceptable in a way that is measurable
- **Capability:** assess the full range of fraud risks and ensure that the range of counter fraud measures deployed is appropriate
- **Capacity:** deploy the right level of resources to deal with the level of fraud risk that is monitored by those charged with governance
- **Competence:** having the right skills and standards commensurate with the full range of counter fraud and corruption activity
- **Communication:** raising awareness internally and externally; deterring fraudsters, sharing information, celebrating success
- **Collaboration:** working together across internal and external boundaries with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

4.6 The document also provides a Delivery Plan recommending the steps a local authority should take in realising the strategy.

4.7 While Southend Borough Council’s Counter Fraud and Corruption Policy and the Counter Fraud and Investigation Team’s Counter Fraud Strategy are relatively advanced in terms of the recommendations of FFCL, there remains more to do. This is particularly evident in the areas of understanding our specific fraud risks and prevention activities. The new Work Plan has been developed to address some of these shortcomings.

4.8 The script of a Fraud Awareness training package has been completed despite the challenges presented to the team described above. We are currently in discussion with SBC’s Workforce Development Team about the best way to deliver this across the organisation. It is likely that this will be delivered as an online learning session and support will be sought to make this mandatory for all staff and new starters. The target date for this to be delivered is now September 2020.

4.9 The monthly fraud update continues to reach an increasing audience; this details the current threats from fraud and recipients are encouraged to share the information as widely as possible. Feedback from this initiative has been positive and, while it is aimed at helping staff and their families and friends to better protect themselves from fraud, it has the added benefit of raising the awareness of fraud and how to spot and stop it thus reinforcing a counter fraud culture and protecting the Council.

4.10 The Work Plan also includes an intention to systematically risk assess and analyse those areas of the Council at the highest risk of fraud. This should result in ‘target hardening’ measures to make fraud more difficult and bespoke training for teams to be made aware of the unique risks their area is exposed to.

- 4.11 A recent success story is the Council's response to a widespread Covid-19 Business Grant fraud where timely sharing of intelligence with the team administering the grants enabled the Council to thwart several attempts to acquire Business Rates account numbers. These results are a testament to the vigilance of the staff involved.

5. Investigations

- 5.1 As reported in the previous report to Audit Committee in April, CFIT had dealt with, or were investigating, 198 cases.
- 5.2 Since that report was compiled, we have received 54 new cases, making a total of 252 cases since the team was formed in October 2019.
- 5.3 Of this total:
- 163 investigations have been concluded.
 - 89 investigations are active:
 - 54 cases are currently being investigated.
 - 3 cases are with Legal Services for prosecution.
 - 32 cases are awaiting assignment to an investigator or being assessed.
- 5.4 A breakdown of these investigations by category is detailed in Appendix 3.
- 5.5 There has been a marked reduction in the number of referrals received this quarter and that may, in some part, be a result of the current crisis.
- 5.6 There has been an increase in the number of cases awaiting assignment to an investigator and this is a result of the lack of human resource available to the team throughout the quarter. This should ease significantly with the introduction of the two new investigators once they are settled in and operating to deliver a full caseload.
- 5.7 The success highlights for the team since October 2019 include¹:
- Recovering, or assisting the recovery of through the service of notices, 6 properties creating a saving of £138,000 for the coming year
 - Recouping a total of £2,187.57 from Council Tax fraud and creating a saving of £2,364.09 for the coming year
 - Thwarting 4 fraudulent Right to Buy applications
 - Referring 4 employee cases to Human Resources for disciplinary action
 - Referring 9 cases to the DWP
 - Referring 9 cases to other Local Authorities or departments for action
 - Assisted in the prevention of £55,000 in fraudulent Business Grant payments.
- 5.8 As part of a locally agreed arrangement with Essex Police, the team has met 110 Data Protection Act requests made for the prevention or detection of crime; 50 of these have been made since the last report to Committee.

¹ note that '*recoupment*' denotes funds reimbursed to the Council or fines levied, and '*savings*' denotes anticipated expenses to the Council that would have been incurred had the offence gone undetected.

6. The National Fraud Initiative (NFI)

- 6.1 The NFI is a central government exercise that matches electronic data within and between public sector bodies to prevent and detect fraud. These bodies upload their data to a central service which then produces data matching reports. This process runs on a 2-year cycle with the Council's next data submission expected at the end of this year.
- 6.2 Some of these data matches indicate fraud while others can highlight errors in the data that should be corrected. Where a department processes a match that indicates fraud it will be referred to CFIT for investigation.
- 6.3 CFIT became the key contact for the NFI in mid-October. Work has progressed to reinvigorate the Council's engagement with the initiative. CFIT acts as a central point of contact for the NFI at SBC and coordinates the Council departments' responses to NFI reports.
- 6.4 During the Covid-19 pandemic, little work has been done on the NFI as Council teams necessarily focused on their core business and the Council's crisis response.
- 6.5 Therefore, the key results from this exercise are unchanged (savings not calculated):
- The NFI report matching Council Tax Single Persons Discount (SPD) to Electoral Register produced 16 accounts which had their SPD removed producing a recoupment of around £8,020
 - The NFI report matching Council Tax rising 18s produced 40 SPD removals resulting in a recoupment of £11,264.29
 - The NFI report matching Council Tax Reduction Scheme to HMRC Household Composition produced some referrals to CFIT and created an overpayment of £28,262.15 which has also been referred to DWP
 - The NFI report matching Council Tax Reduction Scheme to HMRC Earnings produced a referral to CFIT and a potential recoupment of £4,453.23
 - The NFI report matching Duplicate records by invoice reference, invoice amount and creditor reference revealed errors of £605.81
 - The NFI report matching Housing Benefit Claimants to HMRC Household Composition produced overpayments of £1,625.88.

The total recoverable to the Council produced by this exercise so far is **£52,605.48**. 15 referrals were made to CFIT for further investigation.

- 6.6 One of the cases referred to CFIT resulting from the NFI has revealed a Council Tax Reduction Scheme overpayment of £4,427 which will be recouped alongside a £1,000 fine if the suspect accepts an administrative penalty as an alternative to prosecution. This process will be complete once CFIT restarts its suspect interview activity.
- 6.7 Such administrative penalties are an area of development for CFIT, having been somewhat neglected in previous years, and provide a cost-effective resolution to these offences, an appropriate punishment without the costs of a prosecution and which recoups the cost of the investigation. These cases are considered on a case-by-case basis and prosecution would still be pursued in cases where it is in the public interest to do so.

7. The counter fraud work plan 2020/21

- 7.1 The Counter Fraud Work Plan for 2020/21 (Appendix 1) reflects some of the recommendations and guidance in FFCL in areas that we need to address. It also details an initial programme of proactive activity to detect fraud.
- 7.2 This plan will be conducted in parallel to CFIT's core functions of investigating allegations of fraud and corruption, pursuing and punishing offenders and seeking to recover losses to the Council.
- 7.3 The plan also includes activities to develop CFIT's capabilities and reach through, for example, an increased focus on joint working with key teams and agencies.
- 7.4 Much of this planned activity is dependent upon several factors including the further easing of Covid-19 restrictions, the availability of other teams and agencies, the developing capability of the team as the new investigators settle in and how the active workload is progressed and managed.
- 7.5 However, the emphasis on fraud protection and prevention and staff awareness initiatives has been increased, in recognition of this important area of focus for the team's activity.

8. Reasons for Recommendations

- 8.1 **The Counter Fraud & Investigation team assist the Audit Committee to effectively discharge its responsibilities, as per the Terms of Reference, by preventing and detecting instances for fraud and corruption and ensuring that the exposure of the risks of fraud and corruption are managed.**

9. Corporate implications

9.1 Contribution to the Southend 2050 Road Map

The team's work to reduce fraud, protect the council from fraud and corruption, to pursue offenders and to recoup properties and money from the convicted contribute to the delivery of all the council's aims and objectives.

It does this by protecting and recovering the assets and funds that the council holds.

Furthermore, proactive fraud and corruption work, alongside the reactive prosecution of offenders, acts as a deterrent for such activities and assists in the identification of financial loss and loss of assets.

Such proactive counter fraud work can result in reduced costs to the Council by protecting it against potential loss and civil or insurance claims.

A strong counter fraud stance and function improves the Council's reputation for responsible stewardship of public funds.

9.2 Financial Implications

The Counter Fraud & Investigation Team's work will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

9.3 Legal implications

The Accounts and Audit Regulations 2015 section 3 states that:

“The relevant authority must ensure that it has a sound system of internal control which:

- Facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- Ensures that the financial and operational management of the authority is effective*
- Includes effective arrangements for the management of risk.”*

The Crime and Disorder Act 1998 section 17 places a duty on the local authority to:

“...exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.”

The work of CFIT contributes to the delivery of these obligations.

Where fraud or corruption is proved the Council will:

- Take the appropriate action which could include disciplinary proceedings, civil action and criminal prosecution
- Seek to recover losses using criminal and civil law
- Seek compensation and costs as appropriate.

9.4 People Implications

People issues that are relevant to delivering individual investigations, or the Workplan, will be considered as part of each piece of work.

9.5 Property implications

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as the proceeds of crime. Such action will benefit the Council by returning social housing stock for the use of those in most need, recovering the assets of those who seek to profit from criminal behaviour and deterring others from considering such activity.

9.6 Consultation

The progress with investigations and delivery of the Workplan are periodically discussed with Directors before being reported to Corporate Management Team and the Audit Committee.

9.7 Equalities and Diversity Implications

The relevance of equality and diversity is considered during the initial planning stage of the each investigation and piece of development work delivered.

9.8 Risk assessment

Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from criminal activity. Development and reinforcement of such a culture should be led and supported by the Corporate Management Team.

While risk cannot be eliminated from the Council's activities, implementing counter fraud and corruption policies and culture will contribute to managing this more effectively.

9.9 Value for money

An effective Counter Fraud and Investigation Team should save the Council money by:

- Reducing the opportunities to perpetrate fraud; thus reducing potential losses to future budgets
- Detecting fraud promptly and applying relevant sanctions where it is proved; this limits the losses to fraud and corruption
- Pursuing perpetrators to recover losses and to seek compensation; this limits the losses to fraud and corruption
- Recovering properties; this reduces the strain on the social housing stock and reduces the cost of temporary accommodation to future budgets
- Limiting the cost of investigation and pursuit of offenders by the application of alternate sanctions where appropriate; this provides a cost-effective service
- Generate an income for the Council through the provision of counter fraud awareness training to the Council's partners and service providers and the provision of an investigation / prosecution service to appropriate partners.

9.10 Community Safety Implications

These issues are only considered if relevant to a specific investigation, or piece of development work, undertaken.

9.11 Environmental Impact

These issues are only considered if relevant to a specific investigation or piece of development work.

Appendices

- Appendix 1: Counter Fraud Work Plan 2020/21
- Appendix 2: *Fighting Fraud and Corruption Locally; A strategy for the 2020s*
- Appendix 3: Breakdown of CFIT investigations

Appendix 1 – Counter Fraud Work Plan 2020/21

KEY:

Denotes proactive initiatives
Denotes prevention / protection initiatives
Denotes development activities

Area	Activity	Target date	Current status	Resource requirement (officers)	Responsible officer	Completed date
Counter fraud	Maintain business as usual through management of the caseload, timely investigation of referrals towards a prompt, efficient and fair resolution, proactive fraud detection initiatives and the provision of advice and training to the wider council.	Ongoing	Business as usual is being maintained, two new investigators have joined the team, a programme of work (below) has been drafted.	4	Shaun DUTTON	Ongoing
Business Rates	Pro-active audit of empty commercial premises.	TBD	This is dependent upon the pressures on the Business Rates team easing. Therefore aspirational at this time.	2-4	Shaun DUTTON	
Council Tax	Joint working agreement with DWP for cases involving the Council Tax Reduction Scheme.	TBD	A meeting with the DWP was held in January 2020. Discussions are ongoing but are dependent upon a response from the DWP.	2	Shaun DUTTON Caroline MERCIECA	

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Area	Activity	Target date	Current status	Resource requirement (officers)	Responsible officer	Completed date
Council wide	Internal publicity campaign to highlight the work and reporting mechanisms of the fraud team.	TBD	This was in progress during the previous Work Plan but interrupted by the Covid-19 pandemic. Some of this is dependent upon the reoccupation of Council buildings. This is partially fulfilled through the distribution of monthly fraud updates to staff and may also be partially fulfilled through the instigation of fraud awareness training. These activities should be ongoing throughout the year.	1	Shaun DUTTON	
Council wide	Fraud awareness training to be developed and mandated for all staff.	September 2020	The first draft of the course has been completed but requires editing. Discussions have begun with Workforce Development over the best format to deliver it via e-learning, and with Senior Management for support to make it mandatory.	1	Shaun DUTTON	
Council wide	Fraud awareness training to be delivered to all new staff as part of the induction process.	September 2020	If the above is successful, the online training will be mandatory for all new starters. Therefore, a shorter presentation will be developed to introduce new staff to fraud awareness during induction training.	1	Shaun DUTTON	

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Area	Activity	Target date	Current status	Resource requirement (officers)	Responsible officer	Completed date
Housing	Pro-active audit of SBC tenancies.	September 2020	This date is aspirational depending on how quickly the team recovers the backlog of work created by the Covid-19 crisis. Discussions will be held with South Essex Homes to determine how to best identify tenancies most at risk of fraud.	4	Shaun DUTTON James COUSEN	
Housing	Postal information campaign to targeted tenancy areas to encourage reporting of concerns about fraud.	TBD	As above, discussions will be held with South Essex Homes to determine how to best identify areas most at risk of fraud. The target date will be reviewed dependent upon other operational workloads.	2	Shaun DUTTON James COUSEN	
Housing	Review of SBC tenancy terms and conditions to strengthen the counter fraud message and encourage cooperation with the counter fraud team.	TBD	The South Essex Homes' tenancy T&Cs are due to be reviewed. South Essex Homes are aware that we wish to contribute. We are waiting for information as to when this review will take place.	1	Shaun DUTTON	
Council wide	Fraud risk and process analysis of areas of the Council's business at high risk of fraud: <ul style="list-style-type: none"> • Procurement • Housing • Housing applications • School admissions • Blue badge applications • Council Tax • Business Rates • Online services 	Start November 2020	Planning. This is dependent upon how the team and its workload develops.	2-4	Shaun DUTTON	

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Area	Activity	Target date	Current status	Resource requirement (officers)	Responsible officer	Completed date
	<ul style="list-style-type: none"> • Social Care Direct payments • Recruitment • Others dependent upon current research Policy review, process improvement recommendations where appropriate, service-specific training to be delivered where required.					
Blue Badge	Review of the process on how Blue Badge fraud is dealt with and training for ACPOA staff. Pro-active Blue Badge fraud exercise, possibly a joint exercise with ACPOA and Essex Police.	February 2021	Planning. Enquiries are being made to identify a means of tracing the keepers of offending vehicles if they do not provide their details (Essex Police and Traffic Management).	4	Shaun DUTTON	
Business Rates	Research project to determine best practice and effective methods of combatting Business Rates fraud. Establish a working group between CFIT, Trading Standards, Business Rates and Legal Services to review the Council's capabilities and determine realistic opportunities for prevention, detection and action against offenders.	March 2021	The research project has been assigned and initial enquiries among other local authorities have started. A meeting has been discussed with some of the interested parties regarding Business Rates fraud but was interrupted by the Covid-19 crisis. This may have to wait until the pressure on the Business Rates team is eased.	2	Shaun DUTTON Caroline MERCECA	
Counter fraud	Explore joint working opportunities with other SBC teams, particularly parking, Regulatory Services and Trading Standards. Explore the possibility of information / intelligence sharing hub.	Ongoing	Some initial conversations have taken place. This may be dependent upon how the Covid-19 pandemic pans out and the pressure some of these teams are working under.	2	Shaun DUTTON	

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Area	Activity	Target date	Current status	Resource requirement (officers)	Responsible officer	Completed date
Counter fraud	Develop a financial investigator capability.	Late 2021	This aspiration has been delayed by the personal circumstances of the officer that is planned to be developed into this role, and now cannot be started until late 2021.	2	Shaun DUTTON Caroline MERCIECA	Delayed
Various	Investigate the use of technology and data matching to identify and target the risks of fraud against the Council. Develop targeted proactive exercises to act on the results.	TBD	This is aspirational and dependent upon a variety of factors such as information sharing agreements, the availability, cost and complexity of tools required to do this, staff training etc. Enquiries into the feasibility of this will be conducted as and when workload commitments allow.	2-4	Shaun DUTTON	
Counter fraud	Develop 'income generation' opportunities through: <ul style="list-style-type: none"> Counter fraud training initiatives for SBC partners and service providers An investigation and prosecution service to local Housing Associations 	TBD	This is aspirational at this time and development will be dependent upon how the team progresses over the coming 6 months. This cannot be explored at the expense of our ongoing workload commitments or pro-active and prevention activities.	TBD	Shaun DUTTON	

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Fighting Fraud and Corruption Locally

A strategy for the 2020s

A response to economic crime and fraud



With support from:



This is the third Fighting Fraud and Corruption Locally Strategy, produced by local government for local government.

Content

03

Foreword

Local Government Association

Joint Fraud Taskforce

05

Executive Summary

Review of 2016 Strategy

Introduction

10

The Context

20

The Strategic Approach

GAPPP

The themes

25

Turning Strategy into Action

The Local Response

Appendix 1 & Appendix 2

Foreword

— Richard Watts



Since the first strategy was produced in 2011 councils have faced significant financial challenges. Councils have innovated, collaborated and prioritised in order to meet the financial challenge and to protect front line services. Tackling the threat of fraud and corruption has been and continues to be a cornerstone of protecting council finances and enabling them to maximise the value of every pound spent on behalf of local residents.

Every pound siphoned off by a fraudster is a pound that cannot be spent on services where they are needed. Councils need to be vigilant. Councils have a good record in countering fraud and the strategy contains numerous case studies and examples of successes.

As the strategy highlights, it is estimated that about one in three of all crimes committed nationally is fraud based and fraudsters are always seeking new ways to take money. The strategy also highlights that potential losses to fraud could run into hundreds of millions or even billions of pounds if preventative action is not

taken. Councils need to be agile and work together with national agencies and the Government to respond to new fraud threats, to prevent losses and to protect vulnerable people in our society. Collaboration to counter and prevent fraud is a theme running through the strategy.

The Fighting Fraud and Corruption Locally Strategy is an excellent example of how councils can come together for the overall benefit of local services and residents served. The strategy has been led by the Fighting Fraud and Corruption Locally Board. This Board has been described as “a coalition of the willing”. It is a group of senior multi-disciplinary experts from councils working together with partners, that work with the councils on counter fraud activities. The Board is currently chaired by a representative from the Society of Local Authority Chief Executives (SOLACE). The Board members and the organisations they come from all provide their expertise on a pro bono basis, for the benefit of the sector and to help counter fraud. The board is supported by the LGA. In carrying out the research to draft this new strategy, the board has run several workshops up and down the country that have been attended by representatives from more than 250 councils. The work of all these people is reflected in the strategy and our thanks are due to all of them.

The strategy outlines, outlines a governance framework for continuing national and regional collaboration on counter fraud under the Fighting Fraud and Corruption Locally umbrella. Section four of the strategy outlines a practical programme and checklist for individual councils to follow.

I am happy to endorse this strategy on behalf of the LGA and welcome it as an opportunity for councils to review and further improve their counter fraud work in the 2020s.

Cllr Richard Watts

Chair Resources Board, Local
Government Association
Leader Islington Council

Foreword

— Mike Haley



As the Chair of the Joint Fraud Taskforce I am delighted to support The Fighting Fraud and Corruption Locally 2020 strategy at a time when incidences of fraud and corruption are rising and there is an identified need for councils and their leaders to adopt a robust response.

Having worked as a fraud investigator I understand the importance of collaborative working and of having a structure and framework that guides and governs counter fraud and associated corruption activities.

Through working together and applying the principles of this strategy I am convinced that, perhaps for the first time, we have a model for true collaboration that is so important in identifying fraudsters, often organised groups, who seek to undermine and take financial advantage of systemic vulnerabilities and abuse those citizens in our community who are in themselves vulnerable.

I recognise the challenge that we all face in having to balance demands on resource across essential services at a time when funding is constrained. However, I also recognise the important role that local authorities and their frontline services play in tackling fraud and corruption that are a drain on those resources. Savings through enforcement and bringing fraudsters to justice can be used to support our social services and can build stronger and safer communities.

I am convinced that this strategy is an important step in tackling fraud and corruption that is so corrosive to society. In my role as Chair of the Joint Fraud Taskforce I welcome my local authority colleagues. By working together, I am convinced that we can deliver a step change in tackling fraud.

Mike Haley

Chair of the Joint Fraud Taskforce

The Joint Fraud Taskforce is a partnership between banks, law enforcement and government to deal with economic crime.

Executive Summary

Fighting Fraud and Corruption Locally 2020 is the updated counter fraud and corruption strategy for local government. It provides a blueprint for a coordinated response to fraud and corruption perpetrated against local authorities with the support of those at the top.

By using this strategy local authorities will:

- *develop and maintain a culture in which fraud and corruption are unacceptable*
- *understand the harm that fraud can do in the community*
- *understand their fraud risk*
- *prevent fraud more effectively*
- *use technology to improve their response*
- *share information and resources more effectively*
- *better detect fraud loss*
- *bring fraudsters to account more quickly and efficiently*
- *improve the recovery of losses*
- *protect those at risk.*

This strategy is aimed at council leaders, chief executives, finance directors and all those charged with governance in local authorities including those on audit committees and with portfolio responsibility. It is produced as part of the Fighting Fraud and Corruption Locally initiative, a partnership between local authorities and key stakeholders, and succeeds the previous strategies written in 2011 and 2016. It is not 'owned' by any one organisation but by the local authorities who have given time and support to develop it. Areas of focus for elected members, chief executives and those charged with governance are laid out in Section 4: The Local Response.

This partnership has been so successful it has existed since 2010 when the research and engagement first began.

Local authorities continue to face a significant fraud challenge and while the official figures are dated the argument about protecting funds and vulnerable people remains. The National Fraud Authority estimated local authorities face the threat of £2.1bn fraud in a year in 2013. In fact, the Annual Fraud Indicator produced by Crowe Clark Whitehill estimates that figure may be as high as £7.8bn in 2017, out of a total of £40.4bn for the public sector as a whole. The Government's Economic Crime Plan states that the numbers of fraud offences rose by 12% during 2018 to 3.6 million – constituting a third of all crimes in the UK.

Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage and the repercussions may be far reaching.

Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tough stance supported by elected members, chief executives and those charged with governance. This includes tackling cross-boundary and organised fraud and corruption attempts, as well as addressing new risks such as social care fraud and cyber issues.

In addition to the scale of losses and potential losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities report that they are still encountering barriers to tackling fraud effectively, including lack of incentives, data sharing, information sharing and powers, but also that they require support from senior stakeholders and those in charge of governance.

These factors do present challenges. However, this strategy demonstrates the tenacity of local fraud teams in continuing to lead on innovation and collaborate and also that there is a network of local leaders willing to support this initiative. This strategy, then, is about creating a self-sustaining counter fraud response for the sector.

Review of 2016 Fighting Fraud and Corruption Locally Strategy

The previous two strategies focused upon pillars of activity that summarised the areas local authorities should concentrate efforts on. These were 'acknowledge', 'prevent' and 'pursue'.

These pillars are still applicable. During the research for this strategy they were supported as key areas by those who have input. However, another two areas of activity have emerged that underpin tenets of those pillars. These are 'govern' and 'protect'.

The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies.

Govern

Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation. Having a holistic approach to tackling fraud is part of good governance.

Acknowledge

Acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.

Prevent

Preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

Pursue

Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive local enforcement response.

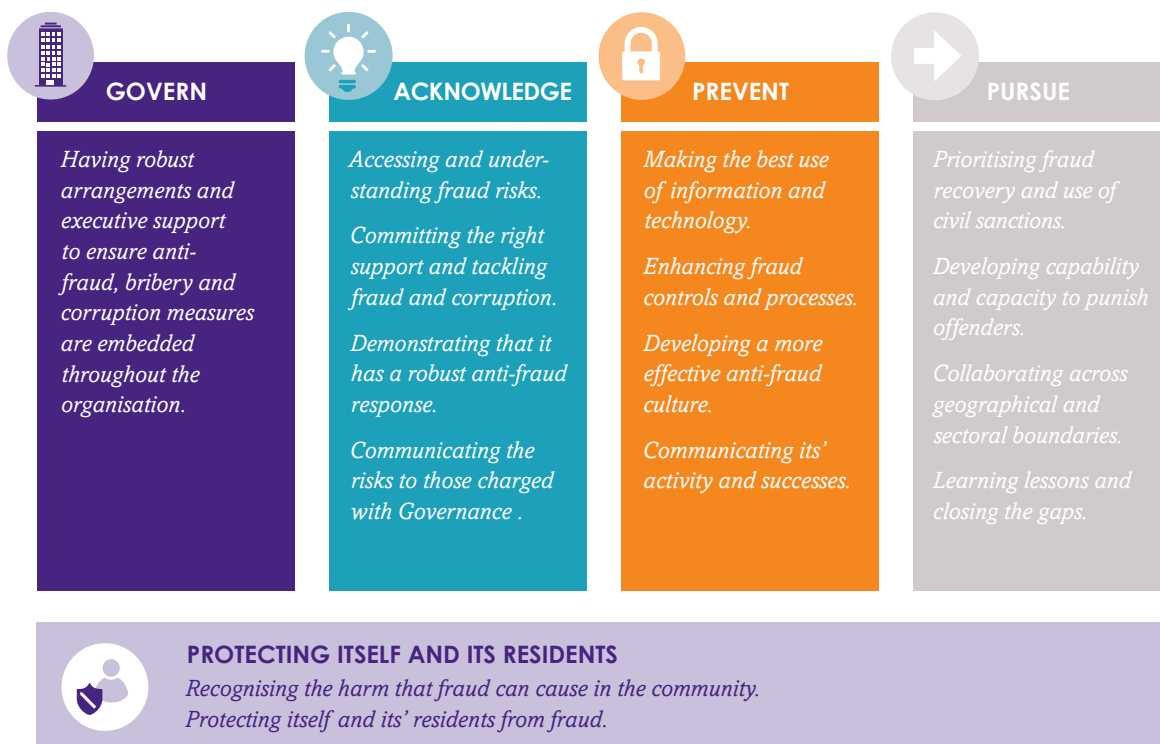
Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat and protect themselves and the community.

The second new area that has appeared during the research recognises the increased risks to victims and the local community:

Protect

Protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community.

For a local authority this will also cover protecting public funds, protecting its organisation from fraud and cybercrime and also protecting itself from future frauds.



This strategy and its tools provide ways for local authorities to further develop and enhance their counter fraud response by ensuring that it is comprehensive and effective and by focusing on the key changes that will make the most difference.

Local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes – the six Cs – that emerged from the 2016 research:

- Culture
- Capability
- Competence
- Capacity
- Communication
- Collaboration

Many local authorities have demonstrated that they can innovate to tackle fraud and can collaborate effectively to meet the challenges. Indeed, many have identified that a reduction in fraud can be a source of sizeable savings. There are case studies and quotes through this document evidencing the good work that is already happening.

This strategy

- *recognises that fraud is not a victimless crime and seeks to protect the vulnerable from the harm that fraud can cause in the community*
- *calls upon senior management in local authorities to demonstrate that they are committed to tackling fraud and corruption*
- *calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment*
- *calls upon local authorities to work together to illustrate the benefits that can accrue from fighting fraud more effectively*
- *calls upon senior stakeholders to listen to the business cases on barriers put by local authorities in order to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers such as a lack of powers.*

Case Study

Birmingham City Council: Acknowledge Using data to tackle fraud

In the original Fighting Fraud Locally 2011 Birmingham City Council was cited as good practice for setting up a data warehouse and protecting public funds. BCC continues to put fraud at the top of the agenda.

BCC has used a well-established, sophisticated data warehouse to develop an automated programme of data matching that allows potential fraud and error to be detected within 24 hours. This has been particularly effective in identifying fraudulent claims for council tax single person discounts and fraudulent housing applications. In time BCC expects the process to reduce the amount of fraud or error requiring a formal investigation as it will have been prevented or stopped almost as soon as it began. As a result, services that are being provided incorrectly can be stopped quickly, thus helping to preserve resources and reduce the level of fraud and error.

“Local authorities must ensure they take the necessary steps to put in place a strategy which can deliver a response that protects itself and its residents. Councils need to commit adequate resources to support that work and also measure its progress against that strategy. Fighting Fraud and Corruption Locally provides the necessary tools and ideas to support that work.”

Trevor Scott, Chief Executive Wealden District Council

Introduction

This strategy document is aimed primarily at council leaders and other elected members, chief executives, finance directors and those charged with governance in local authorities.

As a result of lessons learned during previous incarnations this document contains the core strategy together with companion documents which provide more detailed guidance on its implementation which will be updated when necessary during the life of this strategy. In that way there will be live documents for practitioners to draw upon that will more readily reflect the ever changing fraud local landscape.

We recognise that pulling together practitioners and stakeholders to discuss these issues is a local authority exercise and detracts from day-to-day activity where there are limited resources in place. Therefore this strategy will cover from 2020 onwards supported by live companion documents.

The research for this strategy was carried out by local practitioners and board members.

The research was commissioned by the board and was coordinated by the secretariat.

The research consisted of:



RESEARCH

Desktop research of publications, legislation, and current activity in the landscape.



INTERVIEWS

Individual interviews and discussions with stakeholders from the counter fraud community.



EXPERTS

Specific interviews with subject matters experts.



WORKSHOPS

Facilitated discussions at FFCL 2019 Conference, thirteen specific workshops across UK and two additional conference workshops

The original Fighting Fraud Locally 2011 strategy was launched with a series of pilots and joint working, conferences and awards and was hugely successful. The workshops highlighted much work being done in local authorities that is commendable and can prevent fraud across boundaries. Therefore, as part of these fact-finding engagement exercises those that attended workshops were asked to offer activity to demonstrate the partnership as part of FFCL. Around 30 activities and events have been identified for 2020 that demonstrate some of the good practice found during the research for this document and show that local authorities continue to tackle fraud and corruption. It is intended that these examples will be used to kick-start momentum in the way that the 2011 strategy did. In addition a number of working groups have formed already to implement the recommendations.

The activity following the publication of FFCL 2016 was more limited. There was no formal local launch and limited board activity. Therefore some of the issues raised during that research still persist. Efforts have been made to redress this during the research for this strategy by setting in place activity to address those persistent issues.

Nevertheless it is clear that local authorities continue to tackle fraud, as evidenced in this strategy's case studies and by the appetite to take forward the issues raised during the research and in the good practice guides.

Several new areas were raised during the research as barriers to overcome and local authorities have already stepped up to join together to help tackle these barriers. As part of the engagement exercise working groups and local authorities are already in place to begin the work on these issues.

This document is divided into four sections:

Section 1

The Context

Sets out the nature and the scale of fraud losses, the argument for measurement and the key issues raised by stakeholders.

Section 2

The Strategic Response

Describes the response that is required from local authorities to address the challenges they are facing, identifying the activities necessary in order to achieve the strategic vision.

Section 3

Turning Strategy into Action – Delivery Plan

Sets out the recommendations and the framework for delivery.

Section 4

The Local Response – Appendices

Companion Annexes

The live companions to this strategy document set out more information on how local authorities can ensure that their counter fraud response is comprehensive and effective. These documents may be refreshed at any time during the life of the strategy. They are not part of the strategy but are further guidance that is changeable. Areas they cover include fraud risks, good practice and the counter fraud local landscape.

Section 1: The Context

a) The scale of fraud and corruption

It is accepted that fraud affects the UK across all sectors and causes significant harm.

The Office for National Statistics states that one in 16 members of the population is likely to fall victims. The Government's Economic Crime Plan 2019 states that the number of fraud offences rose by 12% during 2018 to 3.6 million – constituting a third of all crimes in the UK.

The last, most reliable and comprehensive set of local authority figures was published by the National Fraud Authority in 2013, and indicates that the fraud threat may have been costing the UK £52bn a year.

Within these figures the threat to local authorities totalled £2.1bn.

More recent estimates are higher. The Annual Fraud Indicator produced by Crowe Clark Whitehill estimated that figure may be as high as £7.8bn in 2017 of which procurement fraud was estimated as £4.3bn. This study estimated that the total threat faced by the public sector was £40.4bn.

“We do not have a wholly reliable estimate of the total scale of economic crime. However, all assessments within the public and private sectors indicate that the scale of the economic crime threat continues to grow.”

Economic Crime Plan 2019

The National Fraud Authority estimated public sector fraud (including local government) at £20.6bn in 2013.

The National Audit Office's Local Landscape Review 2018 estimated fraud at up to £20.3bn excluding local government.

The estimated losses for local authorities in 2013 are broken down in the following by identified fraud losses and hidden fraud losses:

Estimated Local Government Fraud Loss 2013

Fraud Type	Estimated loss
Housing tenancy fraud	£845m
Procurement fraud	£876m
Payroll Fraud	£154m
Council Tax fraud	£133m
Blue Badge Scheme misuse	£46m
Grant fraud	£35m
Pension fraud	£7,1m

Annual Fraud indicator 2013

These figures do not take into account the indirect costs of responding to and dealing with fraud and exclude some potentially significant areas of fraud loss. The fraud landscape has changed since 2013 as councils have introduced new ways of working and innovative responses to risks, while at the same time new areas of fraud risk have appeared.

Local authorities were sceptical about current publications on sector fraud figures and performance as there was a plethora of different numbers with no agreement or consensus. However, they remain keen to develop a consistent risk and performance methodology for the sector and for individual councils to estimate the potential risk they face on a consistent basis. Following the research for this strategy, a working group has been set up to develop methodologies for the sector to use.

b) The nature of the problem

In June 2019 the Government published its first Economic Crime Plan and included fraud and corruption in the definition.

The Government's Economic Crime Plan 2019

What is economic crime?

To help establish our partnership, we have agreed a common language across the public and private sectors regarding economic crime. We have used the following definition of economic crime to guide our efforts. Economic crime refers to a broad category of activity involving money, finance or assets, the purpose of which is to unlawfully obtain a profit or advantage for the perpetrator or cause loss to others. This poses a threat to the UK's economy and its institutions and causes serious harm to society and individuals. It includes criminal activity which:

- allows criminals to benefit from the proceeds of their crimes or fund further criminality

- damages our financial system and harms the interests of legitimate business
- undermines the integrity of the UK's position as an international financial centre
- poses a risk to the UK's prosperity, national security and reputation

1.12 This definition is broader than terms such as 'financial crime' or 'white-collar crime' to provide a holistic response to the following types of criminality:

- fraud against the individual, private sector and public sector
- terrorist financing
- sanctions contravention
- market abuse
- corruption and bribery
- the laundering of proceeds of all crimes

For the purposes of this strategy we have retained the terms 'fraud' and 'corruption' while recognising that they are part of a wider agenda. The strategy has not been re-titled 'Economic Crime'.

c) Issues raised by stakeholders

During the workshops and research a number of barriers to effective working were raised – the main issues raised are below. Participants were asked how they would solve these issues and there were many ideas and opportunities presented. Local authorities are keen to play a part and influence the outcomes. Therefore a working group has been set up for each of these areas to assess the evidence so far, collect any further evidence and to report into the secretariat for the FFCL Board to consider. There is evidence to create an FFCL operational group from the current FFCL representative network. Further detail on how this will operate will be in the live Delivery Annex.

Recommendation: A single regional FFCL operational group should be formed from the existing FFCL regional representatives.

Fraud measurement

While recognising that the repercussions of fraud are wider than financial it is important that councils have an up-to-date estimate of what the figures and areas of risk appear to be. There are a number of different methods of calculating fraud losses, and these vary across regions. Moreover the fraud priorities differ across regions. External organisations present figures to the sector but there is little or no ownership of these within local authorities. Local authority attendees raised this lack of independent analysis and free benchmarking to look at areas in deep detail rather than reported figures on numbers of referrals or cases detected. Local authorities could use this analysis to make the business case to tackle fraud, understand fraud issues more closely and see a more detailed picture across boundaries.

Recommendation: A working group on measurement should be formed to develop a consistent risk and performance methodology for the sector.

Local authorities have agreed to work together to build a set of figures for use as an indicator of actual losses, prevention measures and fraud areas. In addition this group will look at the area of benchmarking. This work is underway and the working group is now formed and is in place.

Powers

Local authorities welcomed the introduction of the Prevention of Social Housing Fraud Act (PSHFA) and reported that it had improved accessibility to information and intelligence.

However, some issues on powers that had been raised previously had not been taken forward by any parties, as the PSHFA, had and have been exacerbated by

Case Study

An employee responsible for managing Ipswich Market and collecting stall rent from traders was prosecuted for theft of cash collected. The council's finance team identified an irregularity when it attempted to reconcile income received to income due. The theft was valued at £33,376 and totalled 91 thefts. The employee was given an 18-month prison sentence suspended for two years and ordered to carry out 250 hours of unpaid work in the community.

He was also ordered to pay £14,000 compensation to Ipswich Borough Council at the rate of £400 a month.

new fraud areas such as social care fraud where local authorities report it is difficult to obtain information. During the research local authorities have provided a number of examples across service areas where they cannot obtain information or access organisations in order to progress investigations.

There are a number of potential avenues to resolve these issues and local authorities have themselves suggested opportunities to resolve these. These issues need to be explored further to identify and evidence areas where lack of powers currently frustrate efforts by the sector to successfully progress counter fraud investigations. This will then enable the sector to lobby for the additional powers required.

Recommendation: A working group on powers should be formed.

Local authorities have agreed to work together to identify and evidence areas where lack of powers currently frustrate efforts by the sector to successfully progress counter fraud activity and identify what additional powers are required, what forms that should take and to examine the suggestions that have been collated. This evidence should then be used to lobby government to grant additional powers required. This recommendation is underway and the working group is now formed and is in place

Incentives

Local authorities welcomed the Counter Fraud Fund in 2015 which had been distributed by the then Department for Communities and Local Government

This fund was a one-off and there were good results that are detailed on the Local Government Association Counter Fraud Hub page. However, many local authorities did not have the opportunity to bid and some had lost resources. Local authorities reported that they did not have funds to set up dedicated teams or undertake proactive work, and offers of technology were expensive and often duplicated existing offerings. Local authorities have made some suggestions about ways in which counter fraud activity may be funded. Local authorities have put together ideas on what types of incentives could support improved activity.

Recommendation: A working group on incentives should be formed.

Local authorities have agreed to work together to indicate where incentives may be required from Government and what forms they may take and to examine the suggestions that have been collated in the research.

The working group is now formed and is in place and the work is underway.

Data analytics and matching

A number of data related initiatives exist which local authorities may take part in for example, counter fraud hubs. At the majority of workshops it was said that there is inconsistent advice, high pricing, lack of discussion with suppliers and difficulty filtering out what is useful from what is not. The National Fraud Initiative has two products which were highlighted as useful and these are the Fraud Hub and AppCheck. It was also reported that there were issues with data quality, data standards and a lack of quality assurance about products.

Recommendation: A working group should be formed to review existing data related initiatives available to local authorities and recommend best practice or new ideas.

Local authorities have agreed to form a working group to look at the area of data. A number of ideas have been put together and the group will consider these and what further activity is required. This group will need to decide what is in scope for this work as the issues raised are varied. This recommendation is underway and the working group is now formed and is in place.

Social care issues

At most workshops the area of social care fraud was raised. Social care fraud harms the community and vulnerable individuals who are unable to detect scams or fraud and are often unable to report them. Sometimes abuse of funds by family members or carers complicates the situation. This can include financial abuse of vulnerable persons, not just direct payments and personal budgets.

This area of fraud has emerged as a growing risk since the last strategy was published. The impact of this risk on already stretched social care services and budgets is potentially very significant. For this reason, organisations with relevant skills together with those local authorities that have developed good practice have offered to support work in this area of risk. Our research also highlighted a number of ideas about identifying and tackling some systemic vulnerabilities in this area. Local authorities should ensure fraud strategies are aligned with safeguarding responsibilities to ensure we actively protect the most vulnerable in our communities. Close working with social care teams will be required with joint approaches and planning.

Recommendation: A working group on social care fraud should be formed to look at how local fraud strategies should align to local authorities' safeguarding responsibilities as well as to identify best practice in countering risks relating to social care fraud.

Local authorities have agreed to form a working group to look at the area of social care fraud. A number of ideas have been put together and the group will consider these and what further activity is required. This recommendation is underway and the working group is now formed and is in place.

“Investing to prevent fraud should be one of the early steps in building your counter fraud response. The repercussions of fraud can be far reaching. We have a duty to protect residents in our communities from fraud and we should work in collaboration with officers across the council and partner agencies to prevent fraud and safeguard the vulnerable. Fraud is not a victimless crime”.

*Clive Palfreyman, Executive Director Finance & Resources
London Borough of Hounslow*

d) The themes

In FFCL 2016 a number of themes were identified and while those are still relevant and supported during the research one in particular stood out: collaboration.

Collaboration

There is an appetite for collaboration across the sector and geographically. However, it does not apply solely to local authorities. There is a need for collaboration across sectors, local law enforcement and with suppliers and external organisations.

The current FFCL regional representatives' network functions well. However, there is still a gap where information does not flow. There are also links to law enforcement and both national and local bodies which if they were stronger would help support the fight against fraud. Some councils already participate in regional bodies that could easily be better connected. There is overwhelming support for the idea of more formal FFCL-linked groups. Local authorities requested FFCL regional group.

There is also the possibility of exploring the principle of placing an obligation on partner bodies to share information to assist the detection and prevention of fraud even if the fraud is not against the sharing body.

Furthermore, local authorities reported the need to be more formally linked into the national law enforcement bodies. During the research a number of issues and patterns appeared in workshops that have been raised with enforcement; this demonstrates the merits of a joined-up approach. The Chief Executive of Cifas currently chairs the Joint Fraud Taskforce as well as sitting on the FFCL board and this has enabled Cifas to raise issues with the National Economic Crime Centre about local authorities' fraud risks. Local authorities requested support for better links to the major bodies in enforcement.

It was noted that where support was offered from outside the sector this could lead to a lack of 'ownership' by local authorities and that, had they been consulted or asked to contribute, products and services might have had better take-up. In particular, the cost of external support was raised several times as a barrier to take-up.

Recommendation: A single FFCL regional operational group should be created using the existing network that can link to relevant boards and enforcement.

Activity

During the workshops local authorities agreed to join the existing FFCL regional groups with a representative who is able to form part of a regional FFCL operational group supported by an FFCL Strategic Advisory Board (the current FFCL board).

The North East Regional Investigations Group will form a pilot and link to wider local law enforcement. This has been agreed with that region and is in place.

The new FFCL Strategic Advisory Board should have a dotted-line link into the Joint Fraud Taskforce, which will give access to the main players in local law enforcement.

There is further detail on this in the Delivery Plan Annex with a diagram that outlines how operational issues may flow upwards. The new FFCL regional operational group should be initially chaired by one of the local authority experts from the FFCL Strategic Advisory Board.

Organising ourselves

– a collaborative governance model

Local authorities involved in the workshops realised the need for a strategic board and were pleased that the FFCL board had been in place since 2010 with oversight and had stood the test of time. It was also noted that the board had changed in role several times as had the membership. The original board had been very active, the second board had been more of an oversight body and the current board was wider but less visible. Attendees at workshops raised questions regarding the governance of FFCL, the route for selection to the board and the seniority and expertise of the board.

Further detail is included in the Delivery Plan Annex

Attendees appreciated the support from the firms and private sector and did not object in any way to these board members. In particular, the rebuilt secretariat and the support for the conference and awards in 2019 were noted, as was Mazars' free support on toolkits.

Recommendation: It is recommended that a review of governance takes place in respect of the role of the current board in light of the FFCL regional operational group and links to the Joint Fraud Taskforce.

Further recommendations are detailed in the Delivery Plan Annex.

Case Study

The first social care fraud prosecuted by Veritau and City of York Council

Veritau investigated following a referral from a member of the public. This is the first prosecution of a social care fraud by the council's legal department and an area of development for the counter fraud team. Several prosecutions for social care fraud have been achieved before, but these were jointly investigated by the police and taken to court by the Crown Prosecution Service.

The defendant was the financial representative for his mother who received social care support funded by City of York Council. The council funded his mother's social care, and he failed to inform them when his parents' property sold in 2014. He subsequently lied about this on a financial assessment form. The £86,000 has been paid back to the council in full. Information was received that his parents' property had been sold in 2014 for £200,000 and he had not declared this to the council in an attempt to avoid paying for his mother's care fees. The investigation found that on two separate occasions in 2015 he informed the council that his parents were still joint owners of the property and that his father lived there. In a financial assessment for social care funding, jointly owned properties are disregarded if a family member continues to live there.

The counter fraud team worked alongside financial investigators from the council's trading standards team, who were able to obtain financial information which showed that £198,000 from the house sale was deposited into the son's bank account. This money should have been taken into account for his mother's social care funds, meaning that the council would not have had to pay £86,000 out of the public purse. As a result of the two teams working together, the man was billed and the entire loss has now been repaid to the council.

He pleaded guilty to two charges of fraud by false representation at York Magistrates' Court on 8 October 2019. The case was referred to York Crown Court for sentencing on 19 November where he received a 20-month suspended sentence and was ordered to do 80 hours of unpaid work. He was also ordered to pay court costs of over £1,100 and an £80 victim surcharge. When sentencing, the judge said that a significant factor in mitigation was that he had already repaid the £86,000 to the council.

e) Fraud risk areas

The research has highlighted the following types of fraud risks. These frauds are expanded on in the companion documents and the list below is a brief description:

Fraud risks raised in the research

<i>Social care fraud: personal budgets and direct payments</i>	overstatement of needs through false declaration, multiple claims across authorities, third party abuse by carer, family or organisation, posthumous continuation of claims
<i>Schools</i>	most issues that were raised in the workshops were also raised as issues for schools. This area did not feature in FFCL 2016
<i>Right to buy</i>	fraudulent applications under the right to buy/acquire
<i>Money laundering</i>	exposure to suspect transactions
<i>Commissioning of services</i>	including joint commissioning, joint ventures, commercial services, third sector partnerships – conflicts of interest, collusion
<i>Tenancy</i>	fraudulent applications for housing or successions of tenancy, and subletting of the property
<i>Procurement</i>	tendering issues, split contracts, double invoicing
<i>Payroll</i>	false employees, overtime claims, expenses
<i>Identity fraud</i>	false identity/fictitious persons applying for services/payments
<i>Council tax</i>	discounts and exemptions, council tax support
<i>Blue Badge</i>	use of counterfeit/altered badges, use when disabled person is not in the vehicle, use of a deceased person's Blue Badge, badges issued to institutions being misused by employees
<i>Grants</i>	work not carried out, funds diverted, ineligibility not declared
<i>Business rates</i>	fraudulent applications for exemptions and reliefs, unlisted properties
<i>Insurance fraud</i>	false claims including slips and trips
<i>Disabled facility grants</i>	fraudulent applications for adaptations to homes aimed at the disabled

“Fraud has not disappeared: it is ever present, evolving and affects the funding that is needed for frontline services. In many public sector bodies it is still an area where there is significant underinvestment, because they are not recognising the extent of the epidemic and seeing other priorities, particularly around service delivery, as more important. As fraudsters evolve, we must too. To these ends, through collaboration and intelligence sharing with a fraud prevention specialist service, we are ensuring that cases of fraud are not replicated across our partnership, mitigating controls are put in place and offenders are dealt with appropriately. Through our proactive intelligence-led approach we are taking steps to ensure the public purse is protected from all fraudulent activity.”

David Hill, Chief Executive South West Audit Partnership

Concessionary travel schemes – use of concession by ineligible person, including freedom passes

No recourse to public funds – fraudulent claims of eligibility

New responsibilities – areas that have transferred to local authority responsibility

Local Enterprise Partnerships – partnerships between local authorities and businesses. Procurement fraud, grant fraud. All LEPs should now be incorporated, with a local authority as accountable body, in a more formal and regulated relationship. Key issues are LEP governance, procedures for allocating/prioritising grants

Immigration – including sham marriages. False entitlement to services and payments

Cyber-dependent crime and cyber-enabled fraud – enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments.

However, during the research for this strategy it has become clear that some frauds have become more prevalent and that some risks have reduced. In addition, fraud risks were raised at several workshops about money laundering, suspicious activity reports and risks attached to local authorities becoming more commercial.

The details of these risks are included in the companions as these are seen as changing areas that may need frequent updating.

While the direct consequences of fraud may be financial and reputational loss there are wider impacts that surround the harm to victims locally and the harm in the community. Local authorities have raised a number of issues about protecting the vulnerable from fraud and this spans a large area. There are also other stakeholders in this local landscape who offer support to victims, have developed networks and done deeper research. A large number of volunteers have come forward from the workshops with good practice and a willingness to collaborate to prevent and tackle these issues. The main fraud risk area that has drawn attention is social care fraud. However, there are other frauds that may merit scrutiny.

Activity

Local authorities have agreed to form a working group to look at the area of social care fraud. A number of ideas have been put together and the group will consider these, what further activity is required and if any wider work can be done.

Economic Crime Plan 2019

Economic crime touches virtually all aspects of society. Economic crimes range across the full breadth of criminality, ranging from low-level frauds through to sophisticated cyber-enabled market manipulation. Fraud is now the second most common crime type in England and Wales, with nearly every individual, organisation and type of business vulnerable to fraudsters.

f) Counter Fraud Capacity, Competence and Capability

In FFCL 2016 themes were identified in the areas of capacity, competence and capability as part of the 6Cs – see page 23. These issues still exist.

Despite the challenge around capacity, competence and capability and lack of dedicated resource it is clear that activities to tackle fraud across the sector are being pursued and having a positive impact. But demand and growth in the number of incidents of fraud reported nationally mean local authorities must focus on areas of fraud that they identify as posing greatest risk and adverse impact on their organisations and the vulnerable. Working collaboratively and sharing resources should be encouraged and the FFCL regional board should undertake an analysis of which local authorities may benefit from support and how this might happen.

Many local authority practitioners reported that their capacity to tackle fraud and corruption had been reduced as a result of austerity-related local authority funding reductions. In addition several workshops were attended by shared service representatives and reported that non-attendees no longer had counter fraud resources. In one workshop it was noted that eight councils did not have any resource but that a colleague in the revenue department of a neighbouring authority had been 'helping out' across them. There are also situations that require collaboration: for example, a district council pursues council tax and business rates fraud, but the main beneficiaries are the county council and the Government.

In many cases practitioners also reported that some of the skilled investigation resource had been transferred to the Department for Work and Pensions and had not been replaced. There were large disparities in respect of numbers of staff and skills.

Local authorities reported that their staff did not always have the skills or training to tackle fraud and corruption. Many attendees were skilled and qualified. It was also clear that because a number of local authorities did not have access to a team they were not covering the full range of fraud activities. In contrast the workshops were well attended by experts who, while overloaded, were attempting to tackle all frauds but with one hand behind their backs. Very often they said they would be pleased to assist neighbouring councils but had no contact or requests. The FFCL regional board may assist with this and what support can be given.

In addition there were some parts of the country where the teams were not up to date with current local landscape issues or activities that would benefit them in their roles. At the FFCL 2019 conference questions were raised about free access to tools and

good practice and it was agreed to hold this in the Knowledge Hub, which is an independent, free tool that many local authorities already use. In addition some local authorities already have small networks in the Knowledge Hub that they could link to the FFCL pages. The Knowledge Hub has been open for FFCL since the summer and now contains the archive documents as well as details about other current issues.

Adult care services successful prosecution and repayment in full of fraud loss

The subject of this investigation was the husband of a Hertfordshire County Council service user in receipt of financial support to pay for daily care. He completed the financial assessment forms on behalf of his wife but failed to declare ownership of residential property that was rented out in the private sector.

The allegation originated from a social worker who had a 'gut feeling' that the couple had a second home and referred to matter to Herts' shared anti-fraud service.

The investigation found that the couple jointly owned three properties in addition to their residential home. All three properties were rented out and held equity.

The husband was interviewed under caution where he accepted ownership of the properties but denied any wrongdoing, stating that there was no capital in any of the additional homes and that he had been struggling financially since his wife became ill. As part of the enquiries conducted by the team a fourth property was identified abroad.

On 1 July 2019 at Luton Crown Court, he pleaded guilty to all three counts of fraud by false representation. He was sentenced to two years in prison, suspended for two years. The judge adjourned any financial sanction until the confiscation order was completed. A service decision was made in that had the financial assessment form been completed correctly and the additional property declared, the service user would have been deemed a self-funder and received no financial support for care. Therefore the loss to HCC was calculated as £75,713 and a future saving of £1,166 per week (£60,632 per year) was recorded.

The loss including interest was calculated to be £89,141, which he has paid in full.

Case Study

Collaboration on Protect and Pursue

A man was sentenced to 18 months' imprisonment, suspended for 18 months, after forging documents when applying for disabled persons' freedom passes and disabled persons' Blue Badges.

He was found guilty of 12 offences - nine at Brent, Enfield and Haringey councils. He then pleaded guilty to a further three charges of forgery at Waltham Forest Council.

A lengthy investigation, led by Brent Council's fraud team, discovered that the subject used fake birth certificates, utility bills and medical certificates to falsely present himself and others as disabled.

Brent Council worked with the other three local boroughs, who carried out their own thorough and professional investigations with Brent's support, to join up the charges that resulted in the successful verdict.

For the Brent, Enfield and Haringey offences he was sentenced to 18 months' imprisonment per offence for these nine offences to be served concurrently. The sentence was suspended for 18 months.

The man was sentenced to 12 months' imprisonment for each of the three Waltham Forest offences. This was also suspended and will be served concurrently with the 18-month sentence. He also needs to complete 20 hours of a rehabilitation activity requirement order.

Culture

Some local authority practitioners reported that senior managers were finding it difficult to dedicate sufficient time to demonstrate their support for counter fraud activities due to a focus on other priorities such as meeting budget savings targets and maintaining key services to residents.

This was considered to have a negative effect upon performance, and was associated with counter fraud work having a low profile and the benefits of counter fraud work not being fully appreciated. Appendix 1 details what senior officers and members should focus on.

There is reluctance in some cases to report identified fraud, for example in press releases, for fear of presenting a negative impression of an authority. Reporting of successful outcomes is a powerful tool in prevention and deterrence.

It is important to embed a counter fraud culture and this requires a focus and leadership from the top. This requires having an appropriate resource in place. There is a role for the audit committee to challenge activity, understand what counter fraud activity can comprise and link with the various national reviews of public audit and accountability.

Collaboration

Local authority practitioners demonstrated an appetite for working more formally across local authority boundaries and with other agencies, departments and the private sector. They reported a range of difficulties in securing progress to working together.

Examples included counter fraud work not being consistently prioritised across the sector, lack of financial incentives to make the business case to collaborate, local lack of understanding of data protection rules, and lack of funding.

They also reported an appetite for innovative use of data and wider data sharing, but had encountered barriers to this or made very slow progress.

Local authorities further reported that they found it hard to get the police involved in their cases and that they did not receive feedback on cases from crime reporting hotlines.

During the research a number of incidents were highlighted that demonstrated patterns of activity, organised fraud and money laundering. These issues have been acted upon. However, it is important that local authorities have access to routes where they can report these matters. Local authorities are the eyes and ears of the community and have a wealth of data that can help other local law enforcement if legally

accessed but this communication is not happening everywhere. This collaboration would support the fight against serious and organised crime. If the recommendations about links between the operational board and the JFT are agreed this will start to resolve some of the issues in this section.

Recommendations:

The external auditor should highlight FFCL and its appendices to the audit committee in the annual report

The regional network should continue use the Knowledge Hub as a free, independent, non-commercial confidential space to share information. When it is live the secretariat should hand it to the FFCL operational board.

Local authorities should partner with neighbours and engage in regional networks and should consider sharing resources and expertise. The FFCL operational board should take the lead on this.

While this strategy covers fraud and corruption, no instances of corruption were raised at the workshops though it was clearly considered alongside fraud in local strategies. The Ministry of Housing, Communities and Local Government has conducted research on procurement fraud and corruption that will be added to

the live FFCL documents.

“Working in partnership has allowed the Veritau member councils to establish a dedicated corporate fraud team. The team offers each council access to fraud investigators with specialist knowledge of the fraud risks facing local government. The team has also helped each council to recover significant fraud losses, particularly in new and emerging areas like adult social care.”

Max Thomas, Managing Director Veritau

Case Study

Devon Audit Partnership

A social housing local landlord alleged that Mr P was potentially subletting his property illegally to an unentitled third party. Mr P was already in the process of applying for the right to buy his social housing property.

The subsequent investigation revealed evidence that Mr P's friend was subletting the property from him and had been for at least two years. It also confirmed that Mr P was living in a private rented property with his girlfriend less than two miles away.

Mr P constantly denied the allegations. However, at his interview under caution with the DAP counter fraud services team, after repeatedly lying, he admitted the overwhelming evidence proved he was letting his friend live at his social housing property but denied that he had done anything wrong.

Mr P was subsequently prosecuted and pleaded guilty at that point to two offences contrary to:

Prevention of Social Housing Fraud Act 2013 – in relation to the dishonest illegal sublet of a social housing property

Fraud Act 2006 – in relation to the dishonest attempt to fraudulently obtain a £39,600 discount on his right to buy.

Mr P was sentenced to 160 hours' unpaid work for each charge and ordered to pay Plymouth City Council £750 towards its costs. Judge Darlow stated at the end of the case: “It was fraud [and] the decision by Plymouth City Council to prosecute is to be applauded.”

Section 2: The Strategic Approach

To support the delivery of the strategy there is a need for an action plan, appropriate governance arrangements and revised structures to underpin the key requirements to foster and improve collaboration across boundaries.

The recommendations contained in this strategy need to be turned into a set of achievable actions that are properly resourced, timetabled and allocated to appropriate local and national partners. These will need to be supported by an advisory board of senior stakeholders that commands widespread support and leadership across all levels of local

government. This should include the Local Government Association and the relevant central government departments.

New structures, appropriate to the changing demands, need to be constructed to support the delivery of the strategy. It is recommended that these are built upon the existing counter fraud arrangements already paid for by local government, and that the resources of the existing and new structures are committed to supporting the delivery of this strategy.

The key principles are laid out in the pillars and themes:



Govern

The bedrock of the strategy is that those who are charged with governance support the activity by ensuring that there are robust arrangements and executive support to ensure counter fraud, bribery and corruption measures are embedded throughout the organisation. Beating fraud is everyone's business. The internal arrangements that are put in place should be communicated throughout the organisation and publicly available to demonstrate the culture and commitment to preventing fraud.

Without exception the research revealed an 'ask' that those charged with governance be directed to the strategy and that this become a key element. During the research for FFL 2011 and 2016 it was requested that some key points be laid out for those charged with governance in local authorities to make it simple for them to ensure fraud was being tackled. This request was repeated on numerous occasions during the workshops for FFCL 2020. Some basic questions are laid out at the end of the strategy in Appendix 1.

The supplements to this strategy lay out some key stakeholders, their roles and the areas that they should consider when evaluating the counter fraud efforts in their organisations.

The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies.

Acknowledge

In order to create a counter fraud response an organisation must acknowledge and understand fraud risks and then demonstrate this by committing the right support and appropriate resource to tackling fraud.

This means undertaking a risk assessment of fraud areas and vulnerabilities and then agreeing an appropriate resource. Not every local authority requires a large team but they should have assessed the risk, have a plan to address it and have access to resources with the right capabilities and skills.

Prevent

Fraud can be prevented and detected by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

Local authorities should set in place controls to prevent fraudsters from accessing services and becoming employees. It is nearly always more cost-effective to prevent fraud than to suffer the losses or investigate after the event.

The technology to establish identity, check documents and cross-check records is becoming cheaper and more widely used. Controls should apply to potential employees as well as service users. If someone lies about their employment history to obtain a job they are dishonest and it may not be appropriate to entrust them with public funds. In any case they may not have the training or qualifications to perform the job to the required standard.

Case Study

Fraud Hub Hertfordshire County Council

Hertfordshire County Council and a number of its neighbouring authorities are taking the next step to protect themselves by sharing intelligence in a newly formed FraudHub from the National Fraud Initiative to ensure they can reveal the full extent of fraudulent activities within their region.

Results so far have been extremely positive for Hertfordshire with over...

- *3,000 Blue Badges cancelled*
- *3,000 concessionary travel passes being revoked*
- *120 LG pensions or deferred pensions stopped*
- *182 Direct Payments or personal budgets for adult care being stopped/reduced or reviewed*
- *15 residential care placements being cancelled*
- *23 payroll discrepancies being subject to further investigation*
- *50,000 customer records removed from database alone using mortality data*
- *More than £5m in estimated savings in its first 12 months*

Pursue

Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response on sanctions and collaboration.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat.

A further theme has appeared during the research to link with the government strategy but also recognising the increased risks to victims and the local community.

Protect

Protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community.

For a local authority this will also cover protecting public funds, protecting its organisation from fraud and cyber-crime and also protecting itself from future frauds. This theme lies across the pillars of this strategy.

From the research it is clear that a large number of local authorities use the FFCL initiative as a basis for local plans. Some local authorities have embedded the pillars into operational work. An example of how this has been done is included in the Annexes.

Case Study Pursue

Subletting Case Study Westminster City Council – unlawful profits

The council investigated following an anonymous tipoff that the tenant of a council property was not using the address as required by their tenancy and was profiting from the short-term letting of the property using Airbnb.

Searches of Airbnb carried out by the investigator found the property, which is a studio flat, advertised as a whole property with over 300 reviews. The council investigator found that even though the listing was not in the tenant's name, some of the reviews mentioned the tenant by his name, thanking him for his advice and local restaurant recommendations.

The council obtained the tenant's bank statements under the provisions of the Prevention of Social Housing Fraud Act using the authorised officer service provided by the National Anti-Fraud Network. The investigator subsequently found credits totalling over £125,000 covering four years.

All payments were credited from Airbnb, PayPal or Worldpay. When investigators visited the property they found a man at the premises who denied being the tenant even though his appearance matched the tenant's description. The next day the adverts had been removed from Airbnb but the investigator

had already retrieved and saved copies.

The tenant failed to attend several interviews under caution, but when possession action began his solicitors asked for a further opportunity for their client to be interviewed under caution to provide an account of events. This was agreed but again the tenant failed to attend the interview. Having applied the Code for Crown Prosecutors to the facts of the case and the defendant's personal circumstances, criminal action was not taken.

At the possession hearing, the District Judge said the Airbnb evidence was strong and that there was no distinction between 'short-term let' and subletting the home. The judge found in favour of the council. At an unsuccessful appeal hearing the judge agreed to the council's unlawful profits order of £100,974.94 – one of the highest that has ever been awarded to the council.

The tenant has now been evicted from the property.

Fighting Fraud and Corruption Locally – embedding the pillars

Durham County Council's counter fraud and corruption team has embedded many of the themes to create a robust approach. They have set up partnerships across sectors and regions, created a data hub and used the FFCL strategy to inform all of their work. The audit committee has supported the team and attended the FFCL awards in 2019.

DCC believes the best defence is to create a strong anti-fraud culture based on zero tolerance to deter fraud from being committed. It has reinforced this with a new corporate fraud sanction policy.

Norwich City Council adopted the FFCL pillars into its anti-fraud and bribery strategy in 2017 with the additional pillars of governance (similar to the NHS model). This has had a positive response from council executives and members including the audit committee. The annual report contains a RAG-rated review against the criteria set out in the local strategy and an activity plan based on the criteria each year to demonstrate progress and highlight areas to focus on.

A more detailed explanation of these is in the Annexes.

The Themes – Six Cs

The live companions to this strategy document set out more information on how local authorities can ensure that their counter fraud response is comprehensive and effective. In the 2016 Strategy six themes were identified and during the research the workshop attendees were keen that these remain part of the strategy document.

Local authorities should consider their performance at a minimum against each of the six themes that emerged from the research conducted. To ensure this is effective and proportionate local authorities should benchmark this information where possible.

The themes are:

Culture – creating a culture where fraud and corruption are unacceptable and that is measurable

Capability – assessing the full range of fraud risks and ensuring that the range of counter fraud measures deployed is appropriate

Capacity – deploying the right level of resources to deal with the level of fraud risk that is monitored by those charged with governance

Competence – having the right skills and standards commensurate with the full range of counter fraud and corruption activity

Communication – raising awareness internally and externally, deterring fraudsters, sharing information, celebrating successes

Collaboration – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

Making the business case:

Investing in counter fraud activity –

Local authorities should pursue opportunities to invest in counter fraud and corruption activity in order to generate savings by preventing and recovering losses.

Local authorities do not, as a rule, explicitly budget for fraud losses (the exception to this is housing benefit, where subsidy losses are budgeted for). However, estimates of local authority losses demonstrate that there is a significant problem, and therefore a significant opportunity for local authorities.

Local authorities should seek to assess their potential losses and measure actual losses in order to make the business case for investing in prevention and detection. In many cases there is an existing business case based upon the experience of other local authorities. For example, the prevention and detection of fraud perpetrated in income areas such as council tax is now widespread and offers higher tax revenue which can be recovered through existing, efficient collection systems. However, each local authority will need to make its own case as fraud risks will vary significantly depending on location, scope, and scale of activities.

The moral case – fraud and corruption in local authorities are unacceptable crimes that attack funds meant for public services or public assets.

The result is that those in genuine need are deprived of vital services. Fraud and corruption are often linked with other criminal offences such as money laundering and drug dealing. Local authorities have a duty to protect the public purse and ensure that every penny of their funding is spent on providing local services. More often than not, in doing so they achieve wider benefits for the community. For example, adult social care sits within the precept for council tax and reducing fraud in this area means that taxpayers' money is protected and is an incentive.

Case Study

An interim manager hired vehicles for personal use covering at least nine different vehicles and costing more than £18,000. The fraud included various invoice frauds for gardening services and over £20,700 paid to the interim manager's account.

In total the interim manager's actions resulted in monies, goods or services with a total value of £60,882.16 being ordered or obtained at a cost to the council from seven suppliers, including false invoices purporting to be from a gardening company.

Thirty-one fraudulent invoices were introduced by the interim manager totalling over £48,000 and were processed, authorised and paid using the council's systems. A further eight invoices totalling

more than £7,000 were subsequently authorised by the interim manager's line manager for liabilities incurred by the interim manager. Employee purchase cards were used to pay for goods worth over £1,270 and the interim manager personally benefited by £4,000 from the compensation payment and over £20,780 from the fraudulent invoices he submitted from the gardening company.

The fraud was discovered via a whistleblowing referral to audit services

The council's investigation found that the maintenance company with the same bank account as the interim manager's company did not exist. The council's audit services department led an investigation with the police to take the matter to Birmingham Crown Court where the interim manager pleaded guilty to Fraud Act offences. He was sentenced to three years' imprisonment on 25 September 2019.

Section 3: Turning Strategy into Action

The Delivery Plan

To support the delivery of the strategy there is a need for an action plan, appropriate governance arrangements and revised structures to underpin the key requirements and foster and improve collaboration across boundaries.

The set of recommendations contained in this strategy need to be turned into a set of achievable actions that are properly resourced, timetabled and allocated to appropriate local and national partners. These will need to be supported by an advisory board of senior stakeholders that commands widespread support across all levels of local government. This should include the Local Government Association and the relevant central government departments.

New structures, appropriate to the changing demands, need to be constructed to support the delivery of the strategy. It is recommended that these are built upon the existing counter fraud arrangements already paid for by local government, and that the resources of the existing and new structures are committed to supporting the delivery of this strategy.

Further details on governance and recommendations are in the Delivery Plan Annex.

Section 4: The Local Response

Appendix 1

What should senior stakeholders do?

The chief executive

1. Ensure that your authority is measuring itself against the checklist for FFCL
2. Is there a trained counter fraud resource in your organisation or do you have access to one?
3. Is the audit committee receiving regular reports on the work of those leading on fraud and is the external auditor aware of this?

The section 151 officer

1. Is there a portfolio holder who has fraud within their remit?
2. Is the head of internal audit or counter fraud assessing resources and capability?
3. Do they have sufficient internal unfettered access?
4. Do they produce a report on activity, success and future plans and are they measured on this?

The monitoring officer

1. Are members, audit committees and portfolio leads aware of counter fraud activity and is training available to them?
2. Is the fraud team independent of process and does it produce reports to relevant committees that are scrutinised by members?

The audit committee

1. Should receive a report at least once a year on the counter fraud activity which includes proactive and reactive work
2. Should receive a report from the fraud leads on how resource is being allocated, whether it covers all areas of fraud risk and where those fraud risks are measured
3. Should be aware that the relevant portfolio holder is up to date and understands the activity being undertaken to counter fraud
4. Should support proactive counter fraud activity
5. Should challenge activity, be aware of what counter fraud activity can comprise and link with the various national reviews of public audit and accountability.

The portfolio lead

Receives a regular report that includes information, progress and barriers on:

- The assessment against the FFCL checklist
- Fraud risk assessment and horizon scanning.

Appendix 2

FFCL Checklist

- The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.
- The local authority has undertaken a fraud risk assessment against the risks and has also undertaken horizon scanning of future potential fraud and corruption risks. This assessment includes the understanding of the harm that fraud may do in the community.
- There is an annual report to the audit committee, or equivalent detailed assessment, to compare against FFCL 2020 and this checklist.
- The relevant portfolio holder has been briefed on the fraud risks and mitigation
- The audit committee supports counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources
- There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.
- The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.
- The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.
- Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.
- Successful cases of proven fraud/corruption are routinely publicised to raise awareness.
- The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.
- The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:
 - codes of conduct including behaviour for counter fraud, anti-bribery and corruption
 - register of interests
 - register of gifts and hospitality.
- The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended

- in FFCL 2020 to prevent potentially dishonest employees from being appointed.
- Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.
- There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.
- There is an independent and up-to-date whistleblowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.
- Contractors and third parties sign up to the whistleblowing policy and there is evidence of this. There should be no discrimination against whistleblowers.
- Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.
- There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.
- Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.
- Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.
- There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communications team.
- All allegations of fraud and corruption are risk assessed.
- The fraud and corruption response plan covers all areas of counter fraud work:
 - prevention
 - detection
 - investigation
 - sanctions
 - redress.
- The fraud response plan is linked to the audit plan and is communicated to senior management and members.
- Asset recovery and civil recovery are considered in all cases.
- There is a zero tolerance approach to fraud and corruption that is defined and monitored and which is always reported to committee.
- There is a programme of proactive counter fraud work which covers risks identified in assessment.
- The counter fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.

- The local authority shares data across its own departments and between other enforcement agencies.
- Prevention measures and projects are undertaken using data analytics where possible.
- The counter fraud team has registered with the Knowledge Hub so it has access to directories and other tools.
- The counter fraud team has access to the FFCL regional network.

There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they too must be trained in this area.

The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.

The counter fraud team has access (through partnership/ other local authorities/or funds to buy in) to specialist staff for:

- surveillance
- computer forensics
- asset recovery
- financial investigations.

Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud-proof systems.

Section 4

The Fighting fraud and Corruption Locally board would like to thank

The Fighting Fraud and Corruption Locally board is:

Charlie Adan – Chief Executive and SOLACE
 Bevis Ingram – LGA
 Andrew Hyatt – Royal Borough of Kensington and Chelsea
 Mike Haley – Cifas and Joint Fraud Taskforce
 Rachael Tiffen – Cifas and secretariat
 Suki Binjal - Lawyers in Local Government
 Colin Sharpe – Leicester City Council
 Clive Palfreyman – LB Hounslow
 Trevor Scott – Wealden District Council
 Alison Morris – MHCLG
 Mark Astley – NAFN
 Paula Clowes – Essex County Council
 Simon Bleckly – Warrington Council
 Karen Murray – Mazars
 Paul Dossett – Grant Thornton
 Marc McAuley – Cipfa

The Board would like to thank Cifas for managing this process, for the delivery of the research and the drafting of this document.

Regional Workshops

Around 260 councils attended workshops organised in the following areas:

East Anglia
SouthWest, Devon, Plymouth, Cornwall and Devon
Kent
London and the South East
Essex
Hertfordshire and Home Counties
Midlands Fraud Group and Chief Internal Auditors and County Networks
North West Fraud Groups
Yorkshire Groups
North East and North Regional Fraud Group

*The Fighting Fraud and Corruption
Locally board wishes to thank:*

Andrea Hobbs
Colin Sharpe
Debbie Dansey
Helen Peters
James Flannery
Jamie Ayling
Jacqui Gooding
David Hill
Max Thomas
Jonathan Dodswell
Hannah Lindup
Shelley Etherton
Gary Taylor
Nick Jennings
Ken Johnson
Mark O'Halloran
Paul Bicknell
Lauren Ashdown
Steven Graham
Matt Drury
Gillian Martin
Sara Essex
Sally Anne Pearcey
Paula Hornsby
Rachel Worsley
Nikki Soave
Francesca Doman
Andrew Reeve
Jason Pengilly
Paul Bradley
Professor Alan Doig
Sean Turley
Neil Masters
Dan Matthews
Scott Reeve
Corinne Gladstone
Louise Baxter
Keith Rosser
Ben Russell
Philip Juhasz
Paddy O'Keefe
Mark Wilkes

Andrew Taylor
Neil Farquharson
Steven Pearse
Lucy Pledge
Sheila Mills
Jamey Hay
Kerrie Wilton
Michael Skidmore
Oliver Day
Carol McDonnell
Nici Frost-Wilson

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Rachael Tiffen – Cifas
Paula Clowes – Essex County Council
Andy Hyatt – Royal Borough of Kensington and Chelsea

**

And all those who attended the workshops, provided feedback, responded to surveys and who took up the actions after the workshops.

Section 5

Glossary and documents

NAFN – National Anti-Fraud Network
CIPFA – Chartered Institute of Public Finance and Accountancy
Cifas – UK's fraud prevention service
NECC – National Economic Crime Centre
NCA – National Crime Agency
MHCLG – Ministry of Housing, Communities and Local Government

ONS: www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingseptember2019#fraud
www.gov.uk/government/publications/economic-crime-plan-2019-to-2022
National Fraud Authority, Annual Fraud Indicator, March 2013
National Fraud Authority - Good practice publication: www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/
Economic Crime Plan 2019: www.gov.uk/government/publications/economic-crime-plan-2019-to-2022
Eliminating Public Sector Fraud: www.cabinetoffice.gov.uk/sites/default/files/resources/eliminating-public-sector-fraud-final.pdf
Smarter Government: www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/smarter-government-report
Local Government Association Counter Fraud Hub: www.local.gov.uk/counter-fraud-hub
Veritau: veritau.co.uk/aboutus
SWAP Internal Audit Services: www.swapaudit.co.uk
Devon Audit Partnership: www.devonaudit.gov.uk

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Appendix 3 - Breakdown of CFIT investigations as of July 2020¹

Category	Cases since last report (April 2020)	Total since CFIT formation (October 2020)	Active investigations (being investigated, awaiting allocation or with Legal Services)	Closed investigations
Transport (Blue Badge, parking permits etc.)	3	27	5	22
Schools (including Early Years)	0	5	1	4
Council Tax and Business Rates	24	84	43	41
Cybercrime	0	3	0	3
DWP	0	3	0	3
Grant Fund fraud	1	2	1	1
Housing (unlawful subletting, Right to Buy fraud etc.)	7	77	13	64
Money Laundering	0	6	1	5
Procurement	0	5	3	2
Social Care (Direct Payment fraud etc.)	1	8	4	4
Employee	0	9	6	3
Miscellaneous (immigration, fraudulent cheques, mischievous referrals etc.)	7	12	1	11
Currently being assessed	11	11	11	0
TOTALS	54	252	89	163

¹ Figures are correct as of 20/07/2020

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Southend-on-Sea Borough Council

Agenda
Item No.

7

Report of the Executive Director (Finance and Resources)

to

Audit Committee

on

12 August 2020

Report prepared by: Deloitte External Auditor

Deloitte: Report to the Audit Committee on the audit for the year ended 31 March 2020

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1. This report summarises the results of the work completed to date for the 2019/20 financial year with regard to:
- the opinion on the Statement of Accounts
 - the conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion).

2. Recommendation

- 1.2. The Committee accepts the Report to the Audit Committee on the audit for the year ended 31 March 2020.**

3. Background

- 1.3. A senior representative of Deloitte (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions.

4. Corporate Implications

- 1.4. Contribution to the Southend 2050 Road Map
- Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.
- 1.5. Financial Implications
- The fee for the audit work is set by Public Sector Audit Appointments Limited and agreed with the Council before the start of the audit. Issues arising during the course of the audit can impact on the audit fee payable.

1.6. Legal Implications

The Council is required by statute to have an external audit of its activities that complies with the requirements of the Code of Audit Practice (the Code) issued by the National Audit Office. By considering this report, the Committee can satisfy itself that this requirement is being discharged.

1.7. People Implications

None

1.8. Property Implications

None

1.9. Consultation

The contents of this report has been discussed and agreed with the Executive Director of Finance and Resources.

1.10. Equalities and Diversity Implications

None

1.11. Risk Assessment

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that this statutory requirement is not met.

1.12. Value for Money

The report includes the auditor's conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion)

1.13. Community Safety Implications

None

1.14. Environmental Impact

None

5. Background Papers

None

6. Attachment: Deloitte Report to the Audit Committee on the audit for the year ended 31 March 2020



Southend-on-Sea Borough Council

Report to the Audit Committee on the audit for the year ended 31 March 2020

Issued on 04 August 2020 for the meeting on 12 August 2020

Contents

01 Our final report

Introduction	3
Our audit explained	5
COVID-19 pandemic and its impact on our audit	6
Significant risks	9
Other matters	13
Value for Money	15
Our audit report	16
Your annual report	17
Purpose of our report and responsibility statement	18

02 Appendices

Audit adjustments	20
Fraud responsibilities and representations	21
Independence and fees	22

Introduction

The key messages in this report

I have pleasure in presenting our update report to the Audit Committee of Southend on Sea Borough Council (the Council) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the committee in April 2020.

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Status of the audit

Our audit is at an advanced stage at the date of issue of this report with the following key matters still outstanding:

- receipt and evaluation of information from Essex Council Pension Fund auditors;
- receipt and full review of final, updated financial statements;
- receipt and evaluation of the impact assessment in relation to adjusting, post balance sheet events in relation to national rulings regarding local government pensions schemes (namely McCloud and Goodwin – see page 13 for detail);
- completion of a limited number of normal risk procedures;
- completion of internal quality assurance procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2020 through to signing.

We have included a section in this report providing observations arising from the work we have so far carried out on the areas of significant risk and other areas of audit focus reported to you in our audit planning report.

We will provide an oral update on these matters including an update regarding the status of the audit at the meeting.

Our housing benefit subsidy assurance field work is in progress. As the reporting timeline for this is to report by 31 January, we will complete our procedures and report back to the outcome to this committee over the autumn.

It is not clear whether the later assurance requirements in the year such as Teachers' Pensions will be required, we will update you on this in later meetings.

Conclusions from our testing

- We have not identified any significant uncorrected audit adjustments or disclosure deficiencies. The version of the accounts presented to this committee has been amended for our proposed changes. As our audit work is ongoing, further misstatements may be identified through the completion of our remaining work. We will provide an oral update regarding any such matters in the meeting.
- We have summarised any audit adjustments on page 20.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.
- We have considered the impact of the Covid-19 pandemic on our work – we include details on pages 6 and 7. Further details are included in our work on the valuation, where management's expert – Whybrow & Dodds - identified a material valuation uncertainty. This is common to 31 March 2020 valuations in the sector. This wording is reflected in our draft auditor's report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic.
- We do not have any significant findings or internal control deficiencies to raise at the date of issue this report but will update the Audit Committee should any arise.

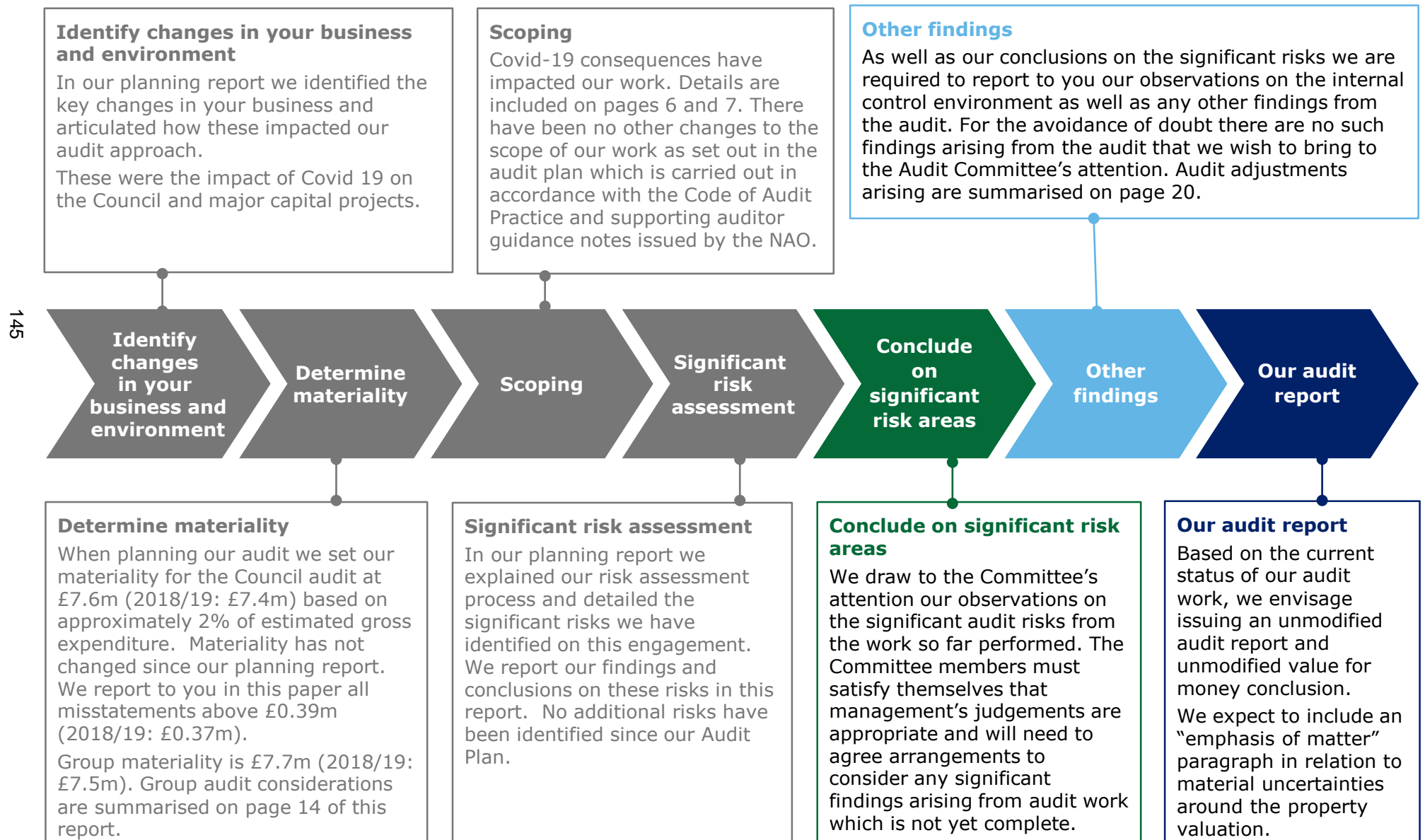
Introduction

The key messages in this report (continued)

Financial Sustainability and Value for Money	<ul style="list-style-type: none">• In the CIES, following agreed adjustments, the Council reported an accounting surplus of £3.6m for the year (2018/19: £10.7m) which included net losses of £12.3m in respect of property revaluation (2018/19: net gain of £26.1m) and gains due to remeasurement of the pension liability of £21.4m (2018/19: £31.8m). At the provision of service line the Council showed better performance with a net deficit of £5.5m (2018/19: £47.2m). At year end the Council had usable reserves of £162.2m (31 March 2019: £154.9m) and unusable reserves of £342.4m (31 March 2019: £346.1m).• Cash and cash equivalents held by the Council decreased to £42.8m from £46.4m as at 31 March 2019. However, there has been a large increase in resources held in short term investments increasing to £55.5m (31 March 2019: £20.8m). This is due to a surplus of funds received by 31 March 2020 being invested in fixed term deposits.• In the prior year, we noted a funding gap had been identified in the Medium Term Financial Plan ("MTFP") that totalled £18.6m to the end of 2023/24. This reflects ongoing budgetary pressures from reductions in funding and increasing costs of delivering services. The February 2020 iteration of the MTFP, whilst pre Covid-19, extends the outlook to 2024/25 when the funding gap is forecast to be £23.2m. We note the forecast view to 2023/24 in this latest iteration has improved slightly to a gap of £18.2m. An initial impact assessment of Covid-19 consequences has estimated additional budget pressures of £5.2m by the end of July 2020 potentially increasing to £9.5m by 31 March 2021. These budget pressures are in excess of additional forecast Covid-19 related income• Our review of arrangements has concluded that the Council's arrangements in respect of monitoring and managing this funding gap are adequate. This is discussed in further detail on page 15.• As discussed on page 15, we considered arrangements around the Council's capital schemes and its response to areas flagged by Ofsted as requiring improvement. Overall, the Council had adequate governance arrangements in these areas.• We did not identify any significant risk related to Value for Money and we do not anticipate reporting any matters within our audit report in respect of the Council's arrangements for securing the economy, efficiency and effectiveness of the use of resources.
Narrative Report & Annual Governance Statement	<ul style="list-style-type: none">• We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.• At the date of this report, we have no significant matters to raise with you in respect of the Narrative Report which has been updated for our proposed adjustments to ensure appropriately detail in relation to Covid-19 has been included. We also have no significant matters in respect of the Annual Governance Statement. We have received an updated version back from the Council that we are checking complies with all the relevant requirements. We will update you in the meeting if any changes arise from this.
Duties as public auditor	<ul style="list-style-type: none">• We did not receive any formal queries or objections from local electors this year.• We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	<ul style="list-style-type: none">• The Council continues to be below the threshold for WGA reporting.

Our audit explained

We tailor our audit to your organisation



COVID-19 pandemic and its impact on our audit.

Requirements

CIPFA has issued guidance highlighting the importance of considering the impact of COVID-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of COVID-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.

Actions

A thorough assessment of the current and potential future effects of the COVID-19 pandemic is required including:

- A detailed analysis across the council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves;
- The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios);
- Any material uncertainties relating to the council's financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; and
- The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible

146

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
<p>We have considered the key impacts on the business such as:</p> <ul style="list-style-type: none"> • Interruptions to service provision. • Supply chain disruptions. • Unavailability of personnel. • Reductions in income. • The closure of facilities and premises. 	<p>We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including:</p> <ul style="list-style-type: none"> • Principal risk disclosures • Impact on property, plant and equipment • Valuation of commercial or investment properties • Impact on pension fund investment measurement and impairment • Financial sustainability assessment • Events after the reporting period and relevant disclosures • Bad debts provision policy • Narrative reporting • Impairment of non-current assets • Allowance for expected credit losses 	<p>We have considered the impact on the audit including:</p> <ul style="list-style-type: none"> • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel.

Potential Impact on annual report and financial statements

Audit response

Impact on property, plant and equipment

The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Council and has required specific disclosure in the financial statements. Consequently, this has resulted in an Emphasis of Matter in our audit report.

The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council considered with their valuers the impact that COVID-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2020.

The material uncertainty is disclosed in the Statement of Accounts and leads to an Emphasis of Matter in our audit opinion.

Valuation of commercial or investment properties

147

Following the COVID-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needed to be reviewed against the conditions and assumptions at the measurement date. This presents some difficulties because of the volatility of the market at the measurement date and the potential for there to be a lack of reliable observable inputs. This required additional consideration in our work on year-end valuations.

The material uncertainty noted above also includes Investment Properties.

The Council's financial instrument portfolio is wholly made up of "Level 1" investments i.e. where there is a verifiable external source for the pricing. This reduces the level of uncertainty in regard to financial instruments.

Whilst the property fund assets carry a degree of uncertainty in regard to the valuation of the underlying property assets (similar to the uncertainty the Council has on its own property), this is not at a level where it gives rise to a material uncertainty to disclose in the audit opinion in respect of those property fund assets.

Impact on pension fund investment measurement

As a result of the COVID-19 pandemic pension fund investments have been subject to volatility.

We engaged early with the Essex County Council Pension Fund auditor to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. At the date of this report, we have not had the response from the Pension Fund auditor to conclude on this matter.

Expected credit losses

The Council has considered the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.

No issues in relation to this have arisen from our audit work.

	Potential Impact on annual report and financial statements	Audit response
Covid related income received pre year end	<ul style="list-style-type: none"> There were 2 main receipts of income related to Covid-19 that were received pre 31 March 2020 <ul style="list-style-type: none"> Covid-19 LA Support grant. This was the first tranche of £1.6bn passed out to Councils by MCHLG on March 27 2020. Southend received £5.4m. This grant was unringfenced and without conditions and therefore should be recognised in income with any unspent amounts carried in reserves. S31 Business Rates relief grant. This brought forward the receipt of business rate reliefs to ease cash flow pressures that would otherwise have been distributed over the course of 2020/21. The Council received £4.9m. The Council is required to report on this matter and the government can reclaim overpaid sums. It is correct to recognise this grant in receipts in advance (creditors) to release the income over the course of 2020/21. 	<ul style="list-style-type: none"> We note that after discussion and reference to guidance these have been treated correctly in the updated statement of accounts. The remaining Covid related income receipts received after the year end will be considered as part of the 2020/21 audit.
Narrative and other reporting issues	<p>The following areas need to be considered by local authorities as having being impacted on by the COVID-19 pandemic.</p> <ul style="list-style-type: none"> Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities 	<p>We note that the narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.</p> <p>We have received a further updated version back from the Council that we are checking complies with all the relevant requirements. We will update you in the meeting if any changes arise from this.</p>

Significant risks

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Council's results throughout the year did project both positive and negative divergences from budgets in operational areas. This was closely monitored and whilst some areas projected overspends, the underlying reasons were understood. We do note that earmarked reserves were drawn down at a greater level than planned – a £1.8m actual contribution against a planned £147k. There are adequate reserves to support this with earmarked reserves carried forward of £107.4m (31 March 2019: £106.7m)
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

Accounting estimates

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council's estate, correct treatment of capital spend and the valuation of the pension liability, as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the areas more subject to estimation in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Significant risks (continued)

Valuation of property assets

Risk identified

The Council is required to hold property assets within Property, Plant and Equipment ("PPE"), Heritage Assets and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements and our challenge of them

The Council held total assets across PPE, Heritage Assets and Investment Property of £854.1m at year end (31 March 2019: 851.4m). In PPE, the Council held £641.6m of property assets in Other Land a Buildings and Council Dwellings at 31 March 2020, a slight increase from the £640.9m held at 31 March 2019.

This increase of £0.7m is the net impact of several factors principally:

Increasing factors – TOTAL: +£19.4m

- Additions of £16.5m
- Transfers from Assets Under Construction of £2.9m

Decreasing factors – TOTAL: -£18.7m

- Net revaluation impact of £4.6m
- Disposals impact of £1.3m
- Depreciation of £12.8m

Investment properties had immaterial movements due to disposals of -£0.9m, transfers in of +£0.2m and a revaluation increase of +£0.4m giving a carried forward valuation of £41m (31 March 2018: £41.3m).

The financial year to 31 March 2020 represented one year of the five year rolling programme in which 20% of the total asset portfolio was revalued at 1 April 2019. The main section revalued this year was Heritage Assets with a net impairment to carrying values of £11m.

In addition, the Council commissioned its valuer to perform a market review providing information on market changes across 2019/20. On the basis of information in this report, the Council elected to adjust the valuation of properties to account for market changes during 2019/20.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation.
- We obtained an understanding of approach adopted to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.
- We tested a sample of inputs to the valuation.
- We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets including considering the assumptions made of movements between the valuation being performed at earlier stages in the year and the year-end.
- We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check correctly recorded.
- We considered the impact of uncertainties relating to Covid 19 and the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.

Pier valuation

We note that there was increased judgement required in relation to Southend Pier. The asset was impaired by £10.1m from a brought forward valuation of £32.8m to a carried forward valuation at 31 March 2020 of £22.7m.

This is driven by evidence of increasing costs of maintaining the structure of the pier. In accounting terms, the need for heavy maintenance shortens the economic life of this asset as it stands. This shortening of its life plus factoring in the repair and maintenance costs the Council plans to spend have the overall impact of decreasing the valuation of the asset.

This was agreed with the Council's valuer and the Deloitte Real Estate specialist. It was also noted that similar obsolescence (economic life shortening) assumption increases were applied to other older assets appraised as part of the valuation.

We note the Pier is an unusual asset that is difficult to value and is the only one of its kind in the portfolio.

The conclusion to this matter and its presentation in the accounts is satisfactory.

Significant risks (continued)

Valuation of property assets – Material Uncertainty due to Covid-19

Material Uncertainty due to Covid 19

The Council's valuer has included disclosures in relation to Covid 19 in their report including the extracts below:

The outbreak of the novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of this property under frequent review.

This is a common feature of valuation reports prepared to 31 March 2020

Impact on Statement of Accounts

The Council is required to disclose the existence of this material uncertainty in the Statement of Accounts. This can be seen in Note 4 to the accounts, an extract of which is included below:

"[Covid 19] presented an unprecedented set of circumstances on which to base valuation judgements at the balance sheet date.

Asset valuations at 31 March 2020 are included on the basis of 'material valuation uncertainty' so a higher degree of caution should be attached to these valuations. However, they have been based on the best information available and are therefore a valid basis of valuation for this Statement of Accounts.

These include Property, Plant and Equipment, Investment Property valuations and indexation adjustments because of the market review undertaken by the external valuers."

Impact on Audit Opinion

An "emphasis of matter" is required to be included in our audit opinion to draw attention to management's disclosure:

"We draw attention to note 4, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's property portfolio. As noted by the Council's external valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter."

Deloitte view

Overall, we have concluded that the net book value of property assets is not materially misstated. The Council's valuation assumptions are generally reasonable and fall within the expected range highlighted by Deloitte Real Estate.

Significant risks (continued)

Capital expenditure

Risk identified

The Council has a substantial capital programme of £233m over the next five years. The capital programme included £59.7m spend in 2019/20.

Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.

The Council has greater flexibility over the use of revenue resource compared to capital resource. There is also, therefore, an possible incentive for officers to misclassify revenue expenditure as capital.

Deloitte response

- We tested the design and implementation of controls around the capitalisation of costs.
- NS We selected a sample of capital items (including REFCUS) in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.

Deloitte view

Our work in this area has been completed satisfactorily with no issues noted.

Other matters

Defined benefits pension scheme

Background

The Council participates in the Essex Local Government Pension Scheme, administered by Essex County Council.

The net pension liability has decreased from £151.8m at 31 March 2019 to £144.5m at 31 March 2020 primarily as a result of movements in asset values and some changes in discount rate and inflation assumptions. This total includes the impact of the McCloud adjustments.

The Council's pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. The 31 March 2020 position as currently calculated, including the impact of McCloud, is stated as a £5.3m additional liability and has not moved materially in the year from its £4.7m opening position as at 1 April 2019. There continues to be a discussion with the scheme actuary on a potential further amendment to this figure. We have received a response from the scheme actuary and are currently assessing this using our pension specialist team.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow). We have received a response from the scheme actuary and are currently assessing this using our pension specialist team.

Deloitte response

We obtained a copy of the actuarial report produced by Barnett Waddingham, the scheme actuary, and agreed in the disclosures to notes in the accounts.

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Barnett Waddingham, including benchmarking as shown the table opposite.

- We obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements for the year.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.35	2.63	Reasonable, slightly prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.90	2.15	Reasonable, slightly optimistic
Salary increase (% p.a.) (over CPI inflation)	1.00	Council specific	Reasonable
Pension increase in payment (% p.a.)	1.90	2.15	Reasonable, slightly optimistic (in line with CPI)
Pension increase in deferment (% p.a.)	1.90	2.15	Reasonable, slightly optimistic (in line with CPI)
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.80	21.80	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.2	23.20	Reasonable

Deloitte view

Our work is continuing in relation to pension liabilities and assets and we are therefore not yet able to conclude in this area. We will provide an update to the Audit Committee meeting.

Other matters (continued)

Group Accounts

Audit considerations regarding the Group Accounts

We have not been appointed the auditor of the material subsidiary trusts and companies within the group. In order to gain sufficient assurance over significant account balances in the group accounts, we have performed further audit procedures of the material components. The key components for audit procedures are shown in the table below. Porters Place LLP with expenditure/net assets of £5k has been disregarded.

Components	Expenditure (Cost of Services) 2019/20 £m	Net Assets 31/3/20 £m	%age of total Group Expenditure	%age of group Net Assets	Summary of work to be performed
Council	383.2	505	95%	97.1%	The Deloitte group audit team has performed full-scope audit procedures under the Code on this component. Matters arising are noted throughout this report
Trust Funds 154	1.3	23	0.32%	4.42%	The Trust Funds are audited separately by a different firm on a longer timeline. For the purpose of the group audit opinion, material Trust funds will have specified tests performed by the group team focused on assets held. This work is still in progress at the date of issue of this report and we will provide an oral update in the meeting
South Essex Homes Limited	10.5	(3.1)	2.6%	(0.6%)	SEHL is audited separately by a different firm on a longer timeline. For the purpose of the group audit opinion, SEHL will have specified tests performed by the group team. This work is still in progress at the date of issue of this report and we will provide an oral update in the meeting
Southend Care Limited	8.4	(4.6)	2.08%	(0.88%)	SCL is audited separately by a different firm on a longer timeline. For the purpose of the group audit opinion, SCL will have specified tests performed by the group team. This work is still in progress at the date of issue of this report and we will provide an oral update in the meeting

Group Materiality

Materiality for the group is £7.5m with the Council stand alone materiality level set at £7.4m. In order to apply meaningful specified procedures to the non-Council, in-scope group entities, component materiality has been reduced accordingly based on the percentage of the group represented by each subsidiary and will be no more than 40% of the group materiality figure of £7.5m.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources

Background

Under the National Audit Office’s Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body’s arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work. We note that the NAO guidance indicates a low likelihood that Covid-19 forms a risk area impacting the assessment of arrangements for 2019/20. Rather this will form part of the risk assessment and evaluation for 2020/21. The response to Covid-19 is described as an “emerging risk” in this guidance (rather than a significant risk) unless clear evidence comes to the auditor’s attention of a significant failure in arrangements as a result of Covid-19 during the 2019/20 financial year.

Our risk assessment

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report including discussion with relevant officers and review of Council documentation including internal audit reports. We did not identify any further significant risks from our remaining risk assessment procedures. Our areas of focus included the below:

- **Financial Sustainability:** The 2020/21 budget is balanced i.e. there is sufficient funding for the £130.4m budget requirement for general fund net expenditure. This includes a £8.5m use of reserves. In the subsequent years however, a funding gap has been identified in the Medium Term Financial Plan that totals £23.2m to the end of 2024/25 as shown in the table below. As noted earlier, this is a pre-Covid assessment. This reflects ongoing budgetary pressures from reductions in funding and increasing costs of delivering services. Based on our further risk assessment procedures, including developing an understanding of the arrangements for measuring and closing budget gaps, we concluded that this was not a significant risk to our conclusion.
- **Funding gaps per the MTFS:**

2021/22	2022/23	2023/24	2024/25
£7.8m	£4.7m	£5.7m	£5.0m
- **Capital Plans:** There are significant capital projects planned in the medium term. Our review of the Council’s arrangements in respect of monitoring these schemes and mitigating associate risks did not give rise to a significant risk to our conclusion.
- **Ofsted reports:** We noted areas where the authority was identified as requiring improvement (as well as areas of strong practice) in recent Ofsted reports. Our review of the Council’s action plan to manage the required improvements, including working with other parties, did not give rise to a significant risk to our conclusion.

Deloitte view

Based on the current status of our audit work, we envisage issuing an unqualified “value for money conclusion”.

The expected form of our conclusion is as follows:

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2020 we are satisfied that, in all significant respects, Southend on Sea Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

We include details on the other matter paragraph in relation to property valuations on page 11 of this report.

There are no other matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

Our conclusion on the Council's arrangements is unmodified.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

Our conclusion in this area is satisfactory.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement.

	Requirement	Deloitte response
157	<p>Narrative Report The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation - Future sustainability and risks to this posed by Covid-19. 	<p>We have assessed whether the information given in the Narrative Report meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit.</p> <p>We fed back some improvements that could be made in relation to the links between the numbers quoted in the narrative report and the financial statements, adding further details on risks to value for money/use of resources and the Covid-19 commentary.</p> <p>We have considered the sustainability narrative including the requirement to discuss and evaluate the impact of Covid-19 within this assessment. We have concluded satisfactorily on this matter.</p> <p>Our assessment of the impact of Covid-19 can be seen from page 6.</p> <p>We have received an updated version back from the Council that we are checking complies with all the relevant requirements. We will update you in the meeting if any changes arise from this.</p>
	<p>Annual Governance Statement The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit.</p> <p>We have received an updated version back from the Council that we are checking complies with all the relevant requirements. We will update you in the meeting if any changes arise from this.</p>

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the Narrative Report.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.



for and on behalf of Deloitte LLP
04 August 2020

Appendices

159



Audit adjustments

Unadjusted misstatements related to the prior year

The following misstatements in the current year and related to the prior year identified by the Council has been corrected by management in the 2019/20 accounts. We nonetheless communicate this to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) OCI/Equity £m
Better Queensway costs in Assets Under Construction adjusted from Property Plant and Equipment to REFFCUS (Revenue expenditure funded from capital under statute)	[1]	1.4	(1.4)		

[1] The Council's capital spend on Better Queensway is part of an overall Joint Venture project with Swan Housing. The Council identified the following issue regarding the related costs incurred in the prior year. It was determined that, whilst the project planning and management costs were capital in nature, it was incorrect to capitalise them as Assets Under Construction (AUC) as the asset being created will be owned by the Joint Venture rather than the Council. This makes it an item that cannot be capitalised under accounting standards. As it was capital in nature, this does qualify as REFFCUS – expenditure items that can be funded by capital resource under statute. The spend recognised as capital as at 31 March 2019 of £1.4m has therefore been reclassified. This remains however an error in the prior year accounts identified in the current year.

Disclosures

Disclosure misstatements

No uncorrected disclosure misstatements have been identified up to the date of this report.

Other disclosure recommendations

No such matters have been identified up to the date of this report.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council and its group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified capitalisation of expenditure and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance including the Head of Internal Audit.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No significant concerns have been identified from our work

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2019/20, in line with the scale fee provided PSAA, is £110k as broken down below. We are in discussions with the Council on increases to the scale fee as a result of additional work due to Covid-19 and other matters. Our fee for reporting on the housing benefit subsidy claim was reported at the planning stage as £21k and our fee for the Teachers' Pension Return is expected to be £6k.</p> <p>No other non-audit fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>

	Proposed £ (exc VAT)	Planned £ (exc VAT)
Code audit fee	110k	110k
Total audit*	110k	110k
Housing Benefit Assurance Work	21k	21k
Total fees	131k	131k

It is not yet clear what the reporting requirements will be in relation to other assurance work performed such as the Teachers' Pension Return due to the impact of Covid-19. This is usually submitted in November. We will update the Audit Committee accordingly as soon as the scope of this work is known. For this and other similar certification work, as routine attest work with relatively low fee levels and often performed by the auditor, the work is not deemed to impact auditor independence.



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Southend-on-Sea Borough Council

Report of Executive Director (Finance & Resources)
to

Audit Committee

on

12 August 2020

Report prepared by: Pete Bates
Interim Head of Corporate Finance

**Agenda
Item No.**

8

Adoption of the Annual Governance Statement 2019/20 and Statement of Accounts 2019/20

A Part 1 Public Agenda Item

1 Purpose of Report

- 1.1 To present to Audit Committee the Annual Governance Statement for 2019/20 together with actions for 2020/21 and an update on progress made with the 2019/20 action plan.
- 1.2 To adopt the Statement of Accounts 2019/20.

2 Recommendation

- 2.1 That the Annual Governance Statement for 2019/20, subject to any further views expressed by External Audit, be approved and that it is recommended to the Leader of the Council and Chief Executive for authorisation and signature, and incorporation in the Statement of Accounts 2019/20.
- 2.2 That the Statement of Accounts for 2019/20 be adopted and approved for publication.

3 Background

The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020

- 3.1 In response to the unprecedented impact caused by Covid-19, the Government introduced new regulations for the finalisation and auditing of the 2019/20 Accounts for all local authorities. These new regulations have been designed to provide local authorities with additional time and flexibility to complete the publication and audit of accounts for the 2019/20 financial year only and came into force on 30 April 2020. The deadline for publication of unaudited accounts was moved from 31 May 2020 to 31 August 2020 and the deadline for publishing audited statements was pushed back from 31 July 2020 to 30 November 2020.

- 3.2 Following consultation and engagement with our accountancy team and our independent auditors, the Authority decided to try to keep broadly to our original final accounts closure timetable for 2019/20. Clearly operating remotely in these unprecedented times has brought its own challenges for both our accountancy staff and Deloitte. Despite the distraction of many additional demands and the unique operational circumstances, our unaudited Statement of Accounts were published on 24 June 2020. This was achieved by the dedication, expertise, and commitment of accountancy colleagues and with the support and co-operation of many other staff across the Authority.
- 3.3 This Audit Committee meeting is the next key stage in the process of meeting our statutory requirements and for Councillors to be satisfied with the arrangements that have been made and to receive assurance over the accuracy and appropriate reporting of the Authority's financial statements for 2019/20.

Annual Governance Statement (AGS)

- 3.4 The responsibility for ensuring that there is a sound system of internal control rests with the Authority. It is required to report on this annually via its Governance Statement which is published within the Authority's Statement of Accounts each year.
- 3.5 To achieve this, the Authority seeks regular assurance that its systems of internal control are functioning effectively. It also ensures that the system of internal control is effective in managing significant risks in the way that it would expect.
- 3.6 The Authority has delegated responsibility for monitoring and reporting on the adequacy and effectiveness of its system of internal control to the Audit Committee.
- 3.7 The Annual Governance Statement is attached at Appendix 1. Although it has also already been incorporated into the Statement of Accounts in preparation for publication, should the wording need revising based on the deliberations by the Audit Committee, the Statement of Accounts will be updated accordingly.
- 3.8 In appraising the Annual Governance Statement members of Audit Committee should consider:
- That the Audit Committee has acted in accordance with its terms of reference, that members attendance was regular and that training and development of members was undertaken to enable them to fulfil their role effectively.
 - That the statement reflects the evidence seen by members during the course of their duties and that it reflects their experience in undertaking other roles as Councillors, including as members of Scrutiny Committees.

- 3.9 The Council has approved and adopted an updated Local Code of Governance (the Code) in December 2019, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The Council's Good Governance (officer) Group has undertaken a review of the Council's governance processes against the CIPFA / Solace seven core 'principles of good governance'. The Good Governance Group will continue to review and update this self-assessment as part of the evidence considered by the group to highlight areas of governance for potential further focus and/or updated good practice.
- 3.10 After due consideration, Councillors are invited to adopt the Annual Governance Statement.

Statement of Accounts 2019/20

- 3.11 The Accounts and Audit Regulations 2015 require that an Authority's Annual Statement of Accounts be formally adopted by the end of July, having been previously submitted to External Audit by the Chief Finance Officer by the end of May. As previously outlined these arrangements have been updated for the 2019/20 financial year only by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.
- 3.12 Adoption of the Accounts can only be undertaken by the Council as a whole, or a Council Committee to which the function has been delegated. At Southend-on-Sea Borough Council, the Audit Committee has the delegated power to adopt the Accounts. In adopting the accounts, the Audit Committee need to satisfy themselves that the process of drawing up the accounts is robust, and that all relevant guidance and standards have been satisfactorily followed: It is not the role of Audit Committee to pass comment on the financial outturn of the Authority per se, rather to ensure it is accurately reported.
- 3.13 Before adopting the Statement of Accounts 2019/20, Members need to understand how the structure of the accounts works. Appendix 2 guides Councillors through the various statements and the accompanying notes, drawing attention to any significant variances or changes year on year. This appendix therefore serves as an aid to support and ensure robust scrutiny of the Accounts prior to their adoption.
- 3.14 Councillors will also be mindful of the findings of the Council's external auditors Deloitte LLP regarding the Accounts, as contained within their report elsewhere on this agenda. Councillors will note that the external auditor is anticipating issuing an unqualified opinion on the financial statements. The auditors are also required to consider the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources and provide a value for money conclusion.
- 3.15 The Statement of Accounts 2019/20 is attached at Appendix 3. After due consideration, Councillors are invited to adopt them.

4 Next Steps

- 4.1 Following adoption, the Statement of Accounts for 2019/20, incorporating the Annual Governance Statement and the Audit opinion issued by Deloitte LLP will be formally published on the Council's website.

5 Corporate Implications

5.1 Contribution to the Southend 2050 Road Map

Operating robust and appropriate governance arrangements contributes to the delivery of all Council aims and priorities.

The accuracy, format and content of the Statement of Accounts are key determinants in maintaining the Council's reputation for financial probity and effective financial stewardship.

5.2 Financial Implications

All officers have been required to adopt robust financial management arrangements within their service areas.

The Statement of Accounts is required to present a true and fair view of the Council's financial position as at 31 March 2020 and also the income and expenditure for the financial year.

5.3 Legal Implications

The Accounts and Audit Regulations 2015:

- Section 6(1)(a) require an authority, each financial year, to conduct a review of the effectiveness of the system of internal control
- Section 6(1)(b) requires it to prepare an Annual Governance Statement.

Section 6(2) requires the:

- findings of the review to be considered by a committee or by members of the authority meeting as a whole
- annual governance statement to be approved by a committee or by members of the authority meeting as a whole.

Section 6(4) requires that the annual governance statement must be:

- approved in advance of the authority approving the statement of accounts
- prepared in accordance with proper practices in relation to accounts.

Proper practice in this sense is defined as guidance issued by the relevant professional body, which for local government is the CIPFA / SOLACE Framework. This requires local authorities to produce a Local Code of Governance and sets out the operational framework that it should adopt.

Therefore, the work undertaken to support and produce the Annual Governance Statement satisfies the requirements of the Accounts and Audit Regulations 2015.

The Statement of Accounts is a statutory document required by the Accounts and Audit Regulations 2015 issued by the Secretary of State. Those regulations require that the audited Statement of Accounts 2019/20 are adopted and published by 31 July 2020. As previously outlined these arrangements have been updated for the 2019/20 financial year only by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.

5.4 People Implications

There are no people implications arising from this report.

5.5 Property Implications

There are no property implications arising from this report.

5.6 Consultation

There are no consultation implications arising from this report.

5.7 Equalities Impact Assessment

There are no equalities implications arising from this report.

5.8 Risk Assessment

There are no risk implications arising from this report.

5.9 Value for Money

There is no value for money implications arising directly from this report, although the audit of the accounts includes an independent value for money assessment.

5.10 Community Safety Implications

There are no community safety implications arising from this report.

5.11 Environmental Impact

There are no environmental implications arising from this report.

6 Background Papers

Detailed working papers held by the Finance and Resources Directorate and Transformation Directorate.

7 Appendices

Appendix 1 Annual Governance Statement 2019/20

Appendix 2 Overview of the Statutory Statement of Accounts 2019/20

Annex 1 Southend-on-Sea Borough Council – Group Structure

Appendix 3 Statutory Statement of Accounts 2019/20

Southend-on-Sea Borough Council Annual Governance Statement – 2019/20

1. Scope of responsibility

- 1.1 Southend-on-Sea Borough 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.
- 1.2 In discharging this overall responsibility, the Council is responsible for ensuring the proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk, are in place. This responsibility extends to satisfying itself that there are robust governance arrangements between the Council and its subsidiaries.
- 1.3 The Council has approved and adopted an updated Local Code of Governance (the Code) in December 2019, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Council's code is part of the Council's Constitution and is available on the Council's [website](#) or can be obtained from the Corporate Strategy Team, Civic Centre, Victoria Avenue, SS2 6ER.
- 1.4 This Annual Governance Statement explains how the Council has complied with the Code and also meets the requirements of Section 6 of the Accounts and Audit Regulations 2015 (England) in relation to the production and publication of an Annual Governance Statement.

2. The purpose of the Annual Governance Statement

- 2.1 The governance framework comprises the systems, processes, culture and values, by which the Council is directed and controlled and the activities through which it is accountable 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 services and value for money.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an 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 being realised and the impact should they be realised and to manage them efficiently, effectively and economically.
- 2.3 The main governance framework has been in place at the Council for the year ended 31 March 2020 and up to the date of approval of the annual statement of accounts.

3. The Council's Governance Framework

- 3.1 The governance framework ensures the Council's ambition and desired outcomes are effectively promoted and progressed through its corporate governance arrangements and business planning processes. The key business process elements of the governance framework are as follows:

Community participation, including co-design/production with citizens

- Customer satisfaction
- Consultation and engagement
- Complaints, compliments and comments

Outcome based business planning and strategy

- Decision making / constitution
- Policy framework and procedures
- Performance management, including data quality
- Risk management, whistleblowing
- Business continuity
- Information management security
- Contract management
- Project management
- Change / transformation management

Outcome based financial planning & reporting, budgetary control and treasury management

- Commissioning
- Procurement
- Asset Management
- Fraud & Corruption and Insurance
- Value for Money

Workforce management & development

- Values and behaviours - codes of conduct for members and staff
- Staff performance management
- Health and safety
- Ethical governance

- 3.2 These areas form the main sources of assurance to be considered in any review of the Council's governance arrangements.

- 3.3 The Chief Executive has the responsibility for overseeing the implementation and monitoring of 'The Code', through a process which includes:

- Regular reports to the Corporate Management Team (CMT) and the Audit Committee which set out:
 - weaknesses identified in the governance arrangements and
 - any corrective action necessary to resolve concerns identified;
- An annual review of the governance framework undertaken by the officer Good Governance Group;
- An annual report to the Corporate Management Team and the Audit Committee on the adequacy of governance arrangements and

- An annual review of 'The Local Code of Governance', with any significant amendments reported to the Audit Committee, endorsed by Cabinet and approved by Council.
- 3.4 The Council's key governance and business planning processes are also subject to audit on a risk basis. Such work completed during the year forms part of the evidence in support of the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's system of internal control.
- 3.5 Key elements of the Local Code of Governance are outlined below:
- 3.6 The Council's Monitoring Officer is responsible for the maintenance of the Constitution and for reviewing its relevance and effectiveness, ensuring that it is fit for purpose at all times. Any changes to the Constitution are approved by full Council. Minor changes can also be made to the Constitution by the Chief Executive in consultation with the Group Leaders and the Monitoring Officer.
- 3.7 The Council operates a Leader and Cabinet model of governance, with the Leader (who is appointed by Full Council for a four year term) appointing up to 9 other Councillors to form the Cabinet. Cabinet is responsible for the majority of functions of the Council within the budget and policy framework set by full Council. Executive decisions are taken by the Cabinet collectively or by officers acting under delegated powers, depending upon the significance of the decision being made. For urgent issues, a chief officer can take a decision in consultation with the relevant portfolio holder.
- 3.8 The Council has three Scrutiny Committees which review and scrutinise proposed decisions in their respective areas of responsibility – People, Place and Policy & Resources. The committees review and scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions. In accordance with the Health and Social Care Act 2012, the People Scrutiny Committee also scrutinises health matters.
- 3.9 Decisions made by the Cabinet may be called in to a Scrutiny Committee in accordance with the provisions of the Scrutiny Procedure Rules. A decision made by Cabinet can be called in by any two councillors with written notice given to the Chief Executive within five working days from the date of publication of the digest.
- 3.10 The Council operates a pre-Cabinet scrutiny system where scrutiny and opposition councillors are given opportunities to contribute to and offer advice on key decisions prior to consideration by Cabinet. This is achieved by reports to Scrutiny Committees and the outcomes of cross party working groups.
- 3.11 The Council has a Standards Committee to promote and maintain high ethical standards of conduct for elected and co-opted committee members. A key role of the Committee is to help oversee the councillors' Code of Conduct and to monitor the effectiveness of the councillors' Code of Conduct. The Standards Committee also deals with formal complaints against councillors.
- 3.12 The Council operates a development and training programme for councillors to help support them in their strategic roles.

- 3.13 A local authority has a duty to ensure that it is fulfilling its responsibility for adequate and effective risk management, control and governance. To this end, the Council has in place an Audit Committee. The Audit Committee has a key role in overseeing and assessing the risk management, control, and corporate governance arrangements and advising the governing body on the adequacy and effectiveness of these arrangements.
- 3.14 The Council's major policy objectives and priorities are outlined in the 'Road Map to 2023', which outlines the ambition for the borough to 2050, five related themes and the 23 desired outcomes for 2023.
- 3.15 The Road Map is underpinned by five strategic delivery plans, each overseen by a member of the Corporate Management Team and 23 Outcome Delivery plans, each led by members of the Senior Leadership Network. Reports outlining progress against key areas of performance are monitored by the Corporate Management Team, Cabinet and Scrutiny Committees.
- 3.16 Regular financial monitoring reports providing explanations of variance from budget and a projected outturn are also considered by Cabinet and the Scrutiny Committees. A five year Medium Term Financial Plan is refreshed annually and shaped by the priorities agreed by the Council. The Council has also developed a new Financial Sustainability Strategy providing a 10 year horizon. The Council's annual budget process is subject to engagement, consultation and scrutiny by all interested stakeholders. Formal public Scrutiny Committees take place at the end of January, prior to consideration by Cabinet and decision by full Council on the overall budget package in February. This enables a robust, costed and balanced, budget to be set. The overall budget development and approval arrangements complies with good practice, and helps to ensure that the Council remains financially resilient.
- 3.17 The Council operates a four year **capital programme**, with the application of a 'gateway review' process to enable items on a reserved list to be subject to further consideration before being included in the programme. This, among other things, enables consideration of levels of required resourcing to be applied to projects in line with the capacity of the organisation and support for a more outcome focussed approach.
- 3.18 The Corporate Risk Register is reviewed regularly by the Corporate Management Team, and by the Cabinet every six months. Project risk and departmental risk registers are reviewed by service area management teams.
- 3.19 The Council engages with its communities within a participation, consultation and engagement framework that harnesses co-design and asset based community development principles, with outputs integrated into business planning and delivery.
- 3.20 The Council has a Health and Safety Policy, with an accompanying action plan that is reviewed each year and overseen by the Strategic Health and Safety Group, chaired by the Deputy Chief Executive. This has assisted the Council in reaching Level 5 (out of 5) diamond award on the RoSPA (Royal Society for the Prevention of Accidents) Quality Safety Award assessment.
- 3.21 A complaints procedure and a whistle-blowing policy are maintained and kept under review to enable issues to be raised by public, staff, councillors and co-opted Members, when they feel appropriate standards have not been met. A report

analysing complaints, comments and compliments is submitted to Cabinet and Council annually.

4. Role of the Chief Financial Officer

4.1 The Chief Financial Officer (CFO) occupies a key position in managing the Councils' finances and ensuring that resources are used wisely to secure positive results. To support the post holder in the fulfilment of their duties, and ensure the Council has access to effective financial advice, in 2016 the Chartered Institute of Public Finance Accountants (CIPFA) issued an updated statement on the Role of the Chief Financial Officer in Local Government. The statement:

- Sets out how the requirements of legislation and professional standards should be fulfilled by CFOs in the carrying out of their role and
- Includes five key principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations and the organisational arrangements needed to support them.

These principles are:

- The CFO in a local authority is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and aligned with the Council's overall financial strategy;
- The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively;
- The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose; and
- The CFO in a local authority must be professionally qualified and suitably experienced.

4.2 The Council has the necessary arrangements and procedures in place which ensure that these principles are complied with. This is through a combination of direct compliance by the CFO and, where not directly complied with, ensuring there are alternative procedures in place to make sure that the necessary outcomes and objectives are still achieved and suitable controls are in place. For example, this may include deputising arrangements and delegated authority for financial management in the clearance of relevant reports to councillors.

5. Review of effectiveness

5.1 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 Leadership Group; work undertaken by the Good Governance Group; the Head of Internal Audit's annual report; by comments made by external auditors and other external agencies and inspectorates. The Council has also made a commitment to undertake

a comprehensive evidenced based self-assessment against each of the 17 standards contained within the new CIPFA Financial Management Code.

- 5.2 The last few weeks of 2019/20 were dominated by the Council's preparations for managing the Covid19 crises, which has had such a fundamental impact on day to day life, national public policy and the governance, services and finances of all local authorities. The Council's civil contingency arrangements were put into effect in the run up to national lockdown from 23.3.20, and has continued and adapted since, aligning to Government requirements and the Essex Resilience Forum operations.
- 5.3 The Council's Gold command and Silver tactical groups, along with collaborative working with partners, oversaw an unprecedented mobilisation of council, partner and community resources to meet the crises. This included: supporting lockdown enforcement; supporting health and care sectors in managing hospital and care service demand; providing food & essential provisions for the most clinically vulnerable; providing housing for all rough sleepers in the borough; supporting school closures and on-going pupil education; undertaking an intensive communications programme to residents, stakeholders and the wider world and supporting local businesses by processing government grants and loans. This was implemented within weeks, while continuing to operate the range of other services that remained open and while enabling nearly all staff to work effectively remotely and be re-deployed when required.
- 5.4 Decision making processes for urgent matters and routine business that would normally go to Cabinet or Committee (known as the Standing Order 46 process) were adapted, and took effect from the start 2020/21. This included provision for consultation on such matters with all group leaders, not just the relevant cabinet member/s. In addition, the process for holding virtual committee meetings was agreed and put into effect.
- 5.5 Preparations began on considerations for the 'recovery phase' and moving to a 'new normal' of operations, initially with the Council's cabinet members and CMT and then engaging the wider senior leadership, staff and residents. There is an expectation that processes for decision making, the ways of working, the shape of particular services and the financial resources available to the council will be fundamentally different moving forward. However, the Council's response will help drive its programme of fundamental change to deliver its ambition and desired outcomes.
- 5.6 After a period of majority Conservative administration from 2017-19, **a joint administration** of Labour, Independent and Liberal Democrat councillors was formed following the May 2019 elections. The new administration's priorities were incorporated into the Council's Road Map to 2023. These included: a greater emphasis on new housing opportunities; the green agenda; integrated transport; proactively managing the street scene; a revised approach to parking; enhancing the skills of local people; tackling inequalities and making the council more financially sustainable and commercially minded.
- 5.7 The new administration sought to enhance the role of councillors in leading delivery of the desired outcomes. Measures to do so included the rationalisation of 12 **Cabinet Working Parties** in July 2019, to be based around the seven new portfolios. The working parties were re-cast to enable cabinet members to work more collegiately with cross party colleagues, focussing their efforts on policy

objectives in a more pro-active way than had been the case previously. In addition, a review of the Council's Protocol on member/officer relations was undertaken, the findings of which will now be considered in the new municipal year.

5.8 A major revision to **senior management arrangements** was undertaken in July 2019 to provide the capacity needed to meet councillors' ambitions, the desired increase in pace of decision making and delivery and to spearhead the cultural transformation required. These changes were designed to move away from a traditional hierarchy, with multiple organisational layers, to a more matrix form of management across functional areas, applying the lowest appropriate delegation, with greater flexibility and focus on empowerment and accountability. Executive Directors are expected to take a corporate lead on creating the right conditions and culture for outcome delivery as well as lead their services.

5.9 The new arrangements saw the Corporate Management Team (CMT) move from:

Chief Executive; two Deputy Chief Executives (Place and People) and three Strategic Directors (Transformation, Finance & Resources; Legal & Democratic Services) to:

Chief Executive; Deputy Chief Executive & Executive Director (Growth and Housing); and Executive Directors for Neighbourhoods & Environment; Children & Public Health; Adults & Communities; Transformation; Finance & Resources and Legal & Democratic Services.

5.10 Additional capacity was added at director level for housing, property and ICT, with the Director of Digital Futures & ICT reporting to the Executive Director, Transformation, and further capacity built into the ICT service, including a fundamental revision of the approach of the ICT service and restructure of the shape and focus of the team, in recognition of the need to maximise the importance of technology in transforming the way the Council does business.

5.11 The new structure means it is more common to have a range of grades reporting into managers, helping to ensure some key operational services (highways, open spaces and street scene) are closer to the senior management team.

5.12 The Council's Transforming Together programme was progressed to move the organisational culture to one that can deliver the desired outcomes by being more agile, efficient, more entrepreneurial and more engaged with residents and customers. This included:

- Embedding the Council's refreshed set of **values and behaviours** through a new staff appraisal process (introducing 'annual performance conversations').
- A re-vamped **staff induction** programme
- Launch of a **Knowledge Hub** on-line training & development portal enabling staff to access over 2000 learning resources over 55 areas.
- A staff led revision of the council's approach to **reward and recognition**

- Progressing agile working through a '**worklife**' programme, using agile project methodology, more flexible work arrangements, providing creative workspaces, video conferencing, hot desking, remote working and providing a service design 'lab' to help creative thinking and minimise hierarchical and practical constraints.
- A new **service design** team supported the council in harnessing agile and co-design principles, ensuring the end user is involved in design challenges. This approach was used in relation to special educational needs, senior management administration support, councillor enquiries and the Council's approach to dropped kerbs, among others.
- Progressing the Southend 2050 outcomes through an ongoing programme of engagement with staff and stakeholders. Building on a partnership summit in February 2019, this took the form of a '**Test, Learn and Challenge**' fortnight in September. This included an ideas marketplace and summit, to review, challenge and contribute to business proposals. All services conducted their own team challenge to examine how they contribute to the 2050 outcomes and ambition, what they could do differently or stop doing. This was followed up, with a '**Test, Learn & Collaborate**' summit in January with staff and partners identifying co-delivery partners and key milestones through to 2023 and onto 2028 in delivering the desired outcomes.

5.13 As part of the approach to **simple and effective governance**, the four new **governance boards**, focussing on: Investment; Commissioning; Growth & Infrastructure and Innovation & Design began operating. The latter two evolved into more of a forum/space for consideration of projects/ proposals, although all four are likely to be subject to further review in the light of experience. The **Good Governance Group** of senior managers was revised to encompass information management, cyber security and civil contingency to review the Council's governance arrangements to assess whether they are fit for purpose, and ensure that sufficient assurance is available to support the production of the Annual Governance Statement. The **Local Code of Governance** was revised in November 2019 to reflect the Council's current governance arrangements.

5.14 The Commissioning Board progressed the revised **commissioning framework** to move the Council to become a more outcome based commissioning organisation, although this is recognised as an area for further work.

5.15 Work started on developing a programme for service managers, '**Getting to Know Your Business**' which looks to ensure managers have a better understanding of their service areas in terms of: performance; finances; value for money; citizen insight with a view to supporting a more **outcome based investment** approach. The programme will also seek to highlight and complement leadership development, promoting commercial awareness and a better understanding of business acumen.

5.16 A revised approach was taken towards securing long term financial sustainability and more effective medium term business and financial planning. This included agreeing a fully funded **integrated set of outcome focussed revenue budget initiatives and capital investment priorities** as part of the Council's budget development.

- 5.17 In addition, **revenue and capital budget performance reports** to Cabinet and Scrutiny Committees were given greater prominence with their own separate reports (rather than being incorporated into the previous monthly performance report). The reports highlight any major variations from approved spending and capital plans for the year, enabling more pro-active financial management. They complement a new Outcomes Success measures report, considered by each meeting cycle of Cabinet and Scrutiny.
- 5.18 An updated **Medium Term Financial Strategy (MTFS)** (2020/21 – 2024/25), agreed as part of the Council's budget package, provided an integrated view of the whole of the Council's finances and priority investment plans over the medium term in meeting increasing demand for priority services, aligned to the ambition, phased priorities and commitments of Southend 2050.
- 5.19 A new high level long term **Financial Sustainability Strategy** (2020-30) was developed to frame the financial future and intentions for the Council. It helps set the context for the MTFS and guides the Council's approach to maximising resources, prioritising investment and the effective targeting of resources to deliver the ambition and outcomes. It outlines the Council's approach, desire and commitment to achieving financial sustainability by embracing the area's economic potential, growing the local tax base and increasing sustainable income capabilities.
- 5.20 The introduction of a **Safeguarding Southend Strategic Leadership Group**, a strategic partnership board, made up of the key statutory agencies (police, CCG, Council and independent advisor) proved successful. The Group determines local safeguarding arrangements and replaces the previous Adults and Children's Boards. New Southend safeguarding partnerships for children's and adults now report into the strategic **Safeguarding Southend Strategic Leadership Group**, with a remit to provide leadership on policy and practice.
- 5.21 Ofsted undertook a full inspection of the Council's **Children's Services** in July 2019. The inspection focused all areas of statutory children's social work services and early help services delivered by the Council. It did not inspect the work of partners. The inspectors stated that services for children in Southend require improvement to be good across all areas, as was the case at the last inspection in 2016. The report stated that:
- “While senior leaders have made significant progress in some areas in improving the quality of practice, despite a challenging local context, there is more work to do. Leaders have concentrated heavily on strengthening the ‘front door’ multi-agency response to contacts and referrals, planning for children in need and services for vulnerable adolescents, following learning from a joint inspection. These services are now highly effective”.
- 5.22 While the 2016 inspection found the service required improvement in 12 areas, the 2019 inspection found a need for required improvement in four. A revised Strategic Children's Services Improvement Plan has been put in place and is being overseen and implemented by the Children's Services Improvement Board, a Cabinet/ councillor working group, the service and safeguarding partners. The Improvement Board is chaired by the Leader and attended by senior Officers, Lead Member, opposition Children's lead and the chair of safeguarding Partnership along with an Independent external expert.

- 5.23 A cross-Council working group led by the Director for Regeneration & Growth and reporting to CMT, co-ordinated the Council's response to **Brexit** preparations – particularly in the event of a 'no-deal'. The arrangements made were closely aligned with those of the Essex Resilience Forum and the Government's Operation Yellowhammer. These included updating civil contingency and business continuity arrangements, putting in place new arrangements for regulatory services, assessing and mitigating changes to EU funded projects, ensuring Council policies reflected new legislation and guidance, keeping residents informed, supporting local business and promoting the EU Settlement Scheme.
- 5.24 The cross party **Shareholder Board**, formed to oversee the governance of the Council's companies and joint ventures, chaired by the Leader and reporting to Cabinet, continued to meet. It received the accounts and business plans of South Essex Homes; Southend-on-Sea Forum Management Ltd (a zero profit joint venture between the University of Essex, the Council and South Essex College set up to manage the property of The Forum) and Porters Place Southend LLP, joint venture formed to regenerate the Queensway estate.
- 5.25 A new Partnership and Member Agreement was adopted to govern the relationship between the Council and **South Essex Homes (SEH)**. The Partnership Agreement is more output based and encompasses the SEH commercial subsidiary, South Essex Property Services (SEPS), as a party so there is a single point of contractual reference. The Member Agreement is intended to encapsulate the parent/subsidiary relationship between the Council and SEH, but does not cover SEPS.
- 5.26 Chairs of the Community Safety Partnership, Safeguarding Boards and Health and Wellbeing Board, along with related colleagues and partners from the Police, Social Care and Health continued to meet to promote communication between the strands and ensure a co-ordinated approach to addressing complex issues.
- 5.27 The Council continued to play a central role in the **Association of South Essex Local Authorities (ASELA)** to seek to secure the strategic infrastructure, planning and growth required for the area. Work to shape the ask of government in terms of future investment and powers to enable delivery of the vision for South Essex was progressed.
- 5.28 Following the establishment of Porters Place Southend-on-Sea LLP as the joint venture partnership to progress the **Better Queensway** regeneration project, good progress was made with a launch event, two rounds of public consultation, a Housing Needs survey and approval of the Initial Business Plan by the LLP Board and its two shareholders – the Council and Swan Housing Association. This was considered by the Council's Shareholder Board before approval at Cabinet in November 2019.
- 5.29 The Council continued to be an active partner to the South East Local Enterprise Partnership (**SELEP**), with the Council represented by the Leader or Deputy Leader at the main (Strategic) Board, Accountability Board and investment panel, as well as the South Essex sub-board "Opportunity South Essex".
- 5.30 The Council acted as the accountable body for a number of externally funded projects operating across Southend, South Essex and the wider South East. These include the South East Business Boost (SEBB) European Regional Development

Fund programme which also received a three year extension, the Enterprise Advisor Network provision in Southend and the Construction Industry Training Board funded South Essex Construction Training Academy (SECTA).

- 5.31 Six reports were **called-in** from the Cabinet for review by the People Scrutiny Committee, 12 matters were called-in to the Place Scrutiny Committee and 11 reports were called-in to the Policy and Resources Scrutiny Committee. All budget items were referred directly to the three scrutiny committees as was the revised time-line for Southend 2050 and a range of other regular reports on performance, finance, risk and a Public Sector Protection Order.
- 5.32 Three 'in-depth' scrutiny reviews were started in the context of the Southend 2050 ambition: To review the level of domestic waste recycling and ways to achieve higher rates (Place); the appropriate use of reablement for older people when discharged from hospital (People) and Council and councillor communications with local people and stakeholders (Policy & Resources).
- 5.33 Progress on these reviews and Cabinet working parties was impacted by the December General Election and the onset of Covid 19 (the last cycle of scrutiny meetings and others in March 2020 were cancelled or postponed).
- 5.34 Mandatory e-learning for both data protection and cyber security was introduced for staff, supplemented by alternative tailored training for those for whom using an e-learning platform might not be appropriate. Recommendations from previous audits were progressed. Policies and internal processes have been updated.
- 5.35 The Council's approach to cyber security was enhanced by use of a self-assessment tool, the outcome of which has informed the future operating model for ICT and digital enablement. The Council's approach to information management, data protection and cyber security was also reviewed by completing the NHS Data Security Protection Toolkit enabling assessment against Department of Health information governance policies and standards. For 2019/20 the Council was independently assessed as providing 'substantial assurance' in meeting 'standards met' compliance.
- 5.36 Progress on actions to enhance governance arrangements arising from the 2018/19 Annual Governance Statement were reported to Audit Committee during the year, with progress on relevant outcomes against the action.

6. Internal Audit

- 6.1 The annual risk based Audit Plan was prepared in consultation with Directors, Deputy Chief Executives and the Chief Executive. It was developed by the Head of Internal Audit and approved by the Audit Committee. Terms of Reference and reports for specific audits are discussed with relevant Directors, Deputy Chief Executives or the Chief Executive before being finalised, with the recommended actions required to mitigate risks summarised in an action plan.
- 6.2 Internal Audit revisits action plans where the original report's opinion was either Partial or Minimal assurance. These actions are retested and the results of this work is reported to the Corporate Management Team and Audit Committee as part of the Quarterly Performance Report.

Head of Internal Audit Opinion for the year ended 31 March 2020

- 6.3 The Head of Internal Audit Annual Report and opinion for 2019/20 states that:
- 6.4 Governance comprises of the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. Such arrangements can take many forms and still be effective. Appropriate assurance is then required that these processes are fit for purpose and being applied throughout the organisation.
- 6.5 During 2019/20 the Council continued to build on the work that had been undertaken to create the shared ambition for the borough and desired outcomes for its residents, visitors, students and other stakeholders. This has involved continuing to transform the culture, the way that the Council operates and revised governance arrangements, so that the Council develops a culture, a focus, a structure and ways of working that are most effective and appropriate to deliver the required outcomes.
- 6.6 The impact of the covid-19 pandemic began to manifest itself in the latter part of the year as the Council went into emergency response mode in line with the rest of the country and most of the world. The Council's response appears to have held up well, coordinating a wide range of resources from a range of different sources to provide the support, response and management of the community to meet the requirements of the Borough as it goes through the period of lockdown. Clearly there will be a huge amount to do and further challenges as the Borough and the Council moves into recovery mode and the Council is gearing itself up to deliver and meet the multiple challenges ahead.
- 6.7 As a result there continues to be significant change being made to way the Council is operating. The new governance arrangements and ways of working in the current situation continue to develop and evolve, and therefore there is a need for these to have the opportunity to be properly embedded and assurance obtained that they are working effectively as intended, before they can be considered to be operating effectively. However the opportunity for a period of time in which things can begin to settle into a 'new normal' does not appear to be forthcoming very soon.
- 6.8 Therefore, the remainder of this report should be read within this context.
- 6.9 With regards to the assurance provided by audit work undertaken, in these areas, the design and operation of the Council's risk management, control and governance framework in place for the year was satisfactory overall.
- 6.10 No issues have come to my attention this year, other than those already disclosed, that I believe need including in the Council's Annual Governance Statement.
- 6.11 The basis for forming this opinion is an assessment of:
- the design and operation of the underpinning governance and assurance framework
 - the range of individual opinions arising from risk based and other audit assignments that have been reported during the year taking into account the relative significance of these areas
 - whether management properly implement actions arising from audit work completed, to mitigate identified control risks within reasonable timescales.

- 6.12 The Head of Internal Audit has not reviewed all risks and assurances relating to the Council's activities in coming to his opinion.

Compliance with Professional Standards, Head of Internal Audit Opinion

- 6.13 The Institute of Internal Auditors assessed the in-house team as fully meeting most of the Standards, as well as the Definition, Core Principles and the Code of Ethics at the last assessment undertaken (classified as "Generally Conforms", the highest rating).

Good assessments were achieved in relation to:

- reflection of the Standards
- focus on performance, risk and adding value
- quality assurance and improvement programme.

Needs improvement assessments were given in relation to:

- coordinating and maximising assurance
- the efficiency of its operations.

- 6.14 During 2019/20 the team has continued to deliver work using the improved approach resulting from development and implementation of the Compliance with the UK Public Sector Internal Audit Standards Action Plan arising from the assessment by the Institute of Internal Auditors. As a result the service has substantially conformed to the relevant professional standards throughout the year.

- 6.15 The only area where the Council has chosen not to implement the Standards relates to the appointment and removal of the Head of Internal Audit, as the Council's normal human resources practices would already mitigate this perceived potential risk.

7. Issues for the Annual Governance Statement

- 7.1 No issues have come to our attention this year, other than those already disclosed, that we believe need including in the Council's Annual Governance Statement'.

8. External Inspections and assessments

- 8.1 Assurance over the control environment is also obtained from external inspections and assessments of service areas. External assessments for 2019/20 included:
- 10 Ofsted primary school inspections (1 'Outstanding', 9 'Good'). The overall position at April 2020 therefore was:
 - Primary schools: 5 outstanding, 26 good, 2 requires improvement.
 - Secondary Schools: 5 outstanding, 4 good, 2 requires improvement, 1 inadequate
 - Special schools: 1 outstanding, 3 good, 1 requires improvement
 - PRU/alternative provision: 1 good, 1 requires improvement.
 - Ofsted full inspection of the Council's **Children's Services** (July 2019) – requires improvement to be good.
 - Adult Social care ratings:

- Nursing homes: 10 good, 6 requires improvement (RI);
- Residential homes: 3 outstanding, 62 good, 12 RI, 2 inadequate;
- Domiciliary care agencies: 4 outstanding; 31 good; 7 RI; 1 inadequate.
- Community care services: 12 good; 1 RI.

9. Conclusion

9.1 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

9.2 Actions to be specifically addressed are outlined below.

Further actions to strengthen the Council's governance arrangements for 2020/21

No	Area	Action	Date of Implementation	Responsible Officer
1.	Covid 19 relaxation, restoration and recovery	To ensure that the Council's governance arrangements are adapted to meet the Council's response to the Covid-19 pandemic. This will include enabling remote councillor formal and informal meetings and undertaking a revision of the Council's constitution to ensure it is suitable to meet new circumstances and to help deliver the Council's ambitions and desired outcomes.	March 2021	Chief Executive
2.	Southend 2050 - Transformation	Continue to ensure the necessary skills, tools, new ways of working and right culture are in place to support the Council's workforce to deliver the ambition and desired outcomes of the 2050 Road Map and to support the Council's response to the Covid 19 pandemic.	March 2021	Executive Director, Transformation
3.	Southend 2050 – officer governance	Ensure the Council's officer governance architecture is effective, along with other governance bodies, in supporting the delivery of the 2050 programme and providing the necessary assurance in approach to that delivery to demonstrate good governance.	March 2021	Executive Director, Legal & Democratic Services
4.	Risk Management	Implement and embed the Council's updated risk management framework and approach that was approved during 2019/20.	March 2021	Head of Internal Audit

Significant Governance Issues

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

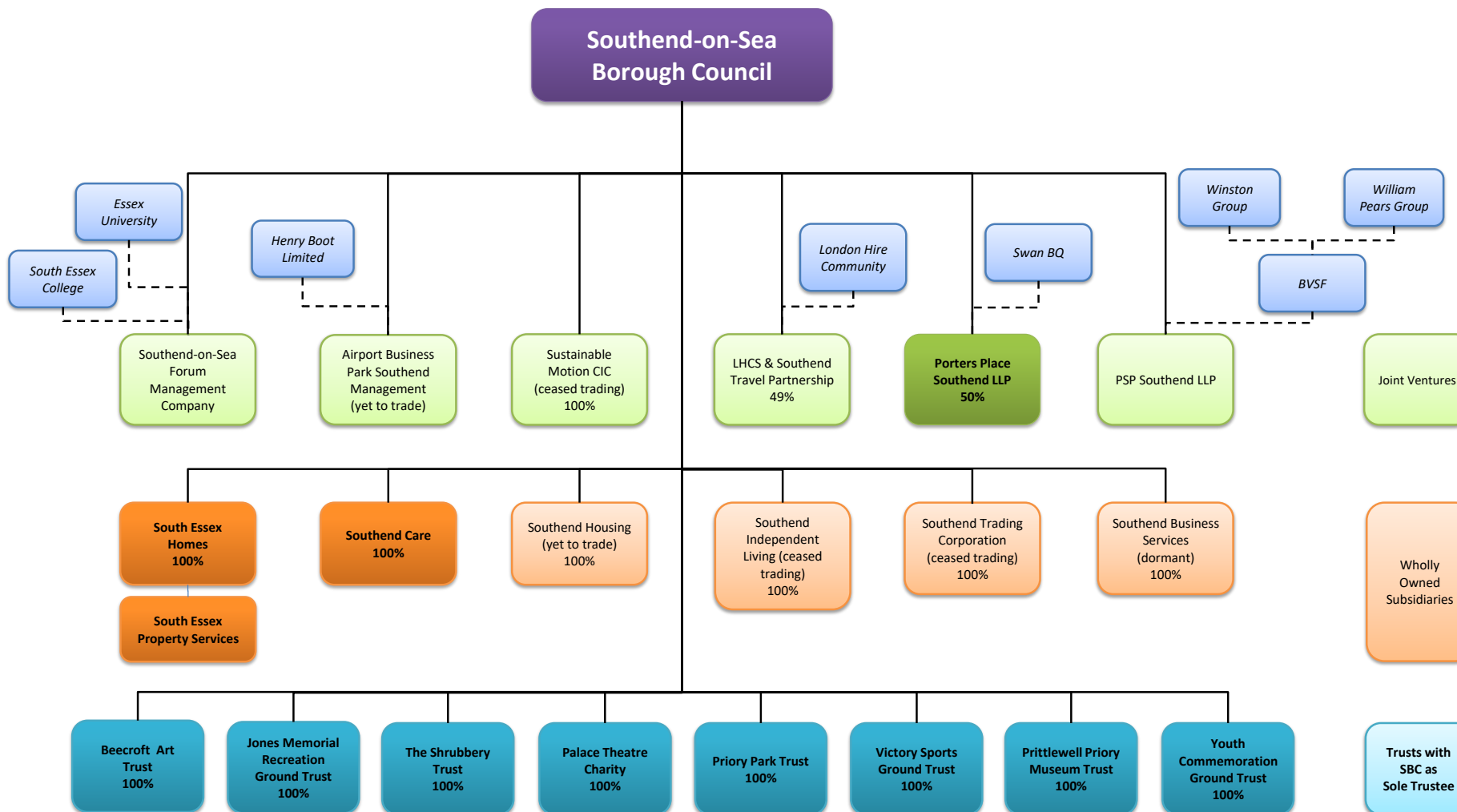
ALISON GRIFFIN
CHIEF EXECUTIVE
DATE:

COUNCILLOR GILBERT
LEADER OF THE COUNCIL
DATE:

SBC Corporate Governance Actions – 2019/20 – Progress

No.	Governance Issue	Action 2019/20	Responsible Officer	Comment on Progress
1.	Southend 2050 – Transformation	Ensure the necessary skills, tools and techniques are in place to support the changes required in the workforce to deliver the desired outcomes of the 2050 Road Map and related strategic and outcome delivery plans.	Joanna Ruffle – Executive Director, Transformation	Progress included: - launch of a Knowledge Hub on-line training & development portal; - embedding a new set of values & behaviours ; - a re-vamped staff induction programme; - a staff led revision of the council's approach to reward and recognition ; - progressing agile working through a ' worklife ' programme, using agile project methodology, more flexible work arrangements including enabling virtually all staff to work remotely; - harnessing agile and co-design principles, ensuring the end user across services, with focussed application in key service areas; - adopting fresh approaches to engage with staff and stakeholders in progressing the 2050 Ambition and outcomes.
2	Southend 2050 - Outcome based investment	Progress the Council's work to achieve the 2050 Road Map, including moving to an outcome based investment approach to business and budget	Joe Chesterton – Executive Director –	A comprehensive review of the Council's Budget development arrangements has been undertaken to provide a sustainable fully integrated revenue and capital

		planning and management for future years.	Finance & Resources	financial plan to resource the delivery of better outcomes for local residents, businesses and visitors. This will be complemented by our developing 'Getting to Know Your Business' programme which looks to ensure managers have a better understanding of their service areas in terms of: performance; finances; value for money; citizen insight to support a more outcome based investment approach.
3	Governance Framework	Develop and embed the Council's new officer governance architecture (comprising the four new boards) to ensure it is effective, along with other governance bodies, in supporting the 2050 programme and provides the necessary assurance in ensuring good governance.	John Williams – Executive Director, Legal & Democratic Services	The, four new officer boards, introduced from April 2019 focussing on: investment; commissioning and innovation & design, began to operate and reporting into the CMT. These evolved during the year, in the light of practice with the growth & infrastructure and innovation & design boards becoming a forum for consideration of projects/ proposals. The revised Good Governance Group, encompassing information management and cyber security operated through the year to promote simple and effective governance. Further moves in this area are anticipated, not least in the light of the impact of Covid 19 on the Council's governance arrangements.



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Appendix 2

Overview of the Statutory Statement of Accounts 2019/20

1. Introduction

- 1.1. This overview summarises the contents of the accounts and draws Members' attention to the reasons for any significant variances in the 2019/20 position when compared to 2018/19.
- 1.2. The content and format of the Statement of Accounts have been prepared in accordance with "The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20" ("the Code") published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.3. The style of presentation and content of the Statutory Statement of Accounts are prescribed by the Accounts and Audit Regulations 2015, together with the Code, as are the explanatory notes accompanying each of the major financial statements. There has not been any significant change to reporting requirements under the code as in previous years. There has not been any need to restate the previous year's financial statements, other than to re-present the income and expenditure figures to reflect the changes made to the portfolio structure of the Council between the two years.

Format of the Accounts

2. Narrative Statement (Page 7)

- 2.1. The Narrative Statement has been expanded from the Strategic Report of previous years to try and provide more context and background about Southend-on-Sea as a place. It highlights some of the key challenges for the area and the ambition and priorities for the Authority. It summarises information about the Council's achievements and overall performance against its corporate priorities. It also outlines the principal risks, financial challenges and uncertainties that the Authority faces.
- 2.2. The Narrative Statement sets out to provide a brief simple guide to the most significant matters reported in the Accounts. Any significant change impacting on the finances of the Authority or change in accounting requirements would be highlighted here. The purpose of the Narrative Statement is not to comment on the policies of the Authority, rather to provide a factual financial commentary for Southend-on-Sea for 2019/20.
- 2.3. The Narrative Statement shows a summarised revenue outturn position for the Authority, comparing the position against the approved budget set for 2019/20. This summarised information for both the General Fund and Housing Revenue Account has already been considered by Cabinet and the Policy and Resources Scrutiny Committee when they considered the 2019/20 Resourcing Better Outcomes Outturn report in June and July 2020, respectively.
- 2.4. The Narrative Statement also highlights the key indicators of the financial health of the Authority as at 31 March 2020, which include the levels of capital investment and borrowing, pensions status and the levels of financial reserves.

- 2.5. Given the unprecedented challenges brought about by Covid-19, the Narrative Statement highlights the Authority's initial response to the pandemic and attempts to summarise the potential implications in terms of the current and future financial landscape but also the impact on local service provision and delivery. Overall, the Narrative Statement has been designed to be self-contained and to provide a more 'reader friendly' high-level story to complement and supplement the more detailed financial statements.

3. Statement of Responsibilities (Page 28)

- 3.1. This sets out the respective responsibilities of the Authority and the Executive Director (Finance and Resources) in relation to the production of the Statement of Accounts. The Council is responsible for making arrangements for the proper administration of its financial affairs, which it does through its Chief Finance Officer. It is also required to manage its affairs to secure economic, efficient and effective use of its resources, to safeguard its assets and to approve the Statement of Accounts.
- 3.2. The Executive Director (Finance and Resources) is required to produce the Statement of Accounts in accordance with proper practice, and to certify that they present a true and fair view of the financial position of the Council.
- 3.3. The approval of the Statement of Accounts, as witnessed by the Chair of Audit Committee is also incorporated here.

4. Auditor's Report (Page 30)

- 4.1. The external auditors will provide an independent opinion as to whether the statement of accounts presents a true and fair view of the financial position of Southend-on-Sea Borough Council at 31 March 2020 and its income and expenditure for the year then ended. The proposed report is included elsewhere on this agenda.

5. The Accounting Statements

- 5.1. The main statements are:
- Comprehensive Income and Expenditure Statement – a summary of the resources generated and consumed by the authority in the year in accordance with generally accepted accounting practices, rather than the ultimate amount falling to be met by taxation;
 - Movement in Reserves Statement – showing how the authority's usable and unusable reserves have moved during the year, including adjustments made as a result of statutory regulation and mitigations;
 - The Balance Sheet; and
 - The Cash Flow Statement.
- 5.2. Each of these core financial statements is discussed in turn below in sections 6 to 9.

6. Comprehensive Income and Expenditure Statement (Page 35)

6.1. This statement is fundamental to the understanding of a local authority's activities, in that it reports the net cost for the year of the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers. It brings together expenditure and income relating to all of the Council's activities, including the HRA. It also includes grant income due in support of capital.

6.2. The statement is split into three distinct sections:

- Net Cost of Services which summarises the cost of each of the different services, net of any associated specific grants and income. The service costs have been adjusted so that they reflect the true economic pension cost of current and past service. The cost of services also includes charges for the use of assets through depreciation and impairment. Where capital expenditure takes place that does not deliver a fixed asset, so called revenue expenditure funded from capital under statute, then this too, alongside any associated grant income, also gets charged here. Services are presented in portfolio groupings, making the statement more recognisable for Members and the public. The portfolios are those relating to 2019/20.
- The second section contains items of income and expenditure that relate to the authority as a whole rather than to an individual service. Amongst other things, this section contains further accounting adjustments for pensions, this time to reflect the performance of the fund, precepts paid to Leigh Town Council, and the payment of a proportion of the Councils' sale of council house receipts over to the Government. It also includes the interest payable and receivable by the Council and the principal sources of financing, that is government grants (including capital grants) and precepts. When added to the net cost of services, this section results in the surplus or deficit on provision of services.
- The final section shows other income and expenditure arising from essentially balance sheet activities, thereby resulting in the Total Comprehensive Income and Expenditure for the year.

6.3. For this authority the 2019/20 Comprehensive Income and Expenditure Statement results in a surplus of £3.562M. A surplus or deficit is disclosed before any appropriations to and from reserves, including statutory mitigations. This compares with a surplus of £10.706M in 2018/19.

6.4. Principal reasons for this £7M year on year movement relate to changes in asset values and actuarial assumptions on the value of the pension fund. These movements are set out in notes 6 and 9 to the accounts, and include:

- a decrease of £33M in the loss in asset values following no academisation of schools in 2019/20, compared to the academisation of 5 primary schools and 1 secondary school in 2018/19;
- a decrease of £19M in the movement in asset values as a result of the rolling revaluation programme, with upwards revaluation of £6M in

2018/19 of various assets (including theatres, parks and pier assets) and downwards revaluation of £13M in 2019/20 of various assets (including Investment Properties and Heritage Assets). The gains/losses in asset values can vary widely depending on the prevailing market conditions and the assets being valued each year as part of the rolling programme;

- a decrease of £16M in the indexation adjustments which result from the market review undertaken by the external valuers at each year-end to ensure the carrying amount of relevant assets is not materially different from their current value; and
- a decrease of £10M in the impact of notional pension adjustments in relation to changing actuarial views around demographic change and financial assumptions.
- £5M of Covid-19 support grant received and recognised in 2019/20;

6.5. It is relevant for Councillors to remember that all of the notional movements are reversed out within the Movement in Reserves Statement, and that the actual position the Council ended the year with was a balanced outturn with no draw on general reserves.

7. The Movement in Reserves Statement (Page 36)

7.1. This statement shows in summarised form how the Council's usable and unusable reserves have moved during the year, through any surplus or deficit on the provision of services and other income and expenditure, and by other adjustments driven by regulations, such as the reversal of depreciation.

7.2. The statement therefore shows the "bottom line" increases or decreases in the Council's usable reserves, as summarised below.

	Increase / (Decrease)	Closing Balance
	£000	£000
General Fund	-	11,000
Housing Revenue Account	-	3,502
Earmarked Reserves, <i>of which</i>	721	107,404
<i>General Fund</i>	1,622	72,288
<i>HRA</i>	(469)	31,921
<i>Schools</i>	(432)	3,195
Capital Receipts	2,746	16,475
Major Repairs (HRA)	777	8,139
Capital Grants Unapplied	3,016	15,638
Total Usable Reserves	7,260	162,158

7.3. The Movement in Reserves statement is supported by notes 19 and 20 to the accounts.

8. Balance Sheet (Page 37)

8.1. The Balance Sheet sets out the financial position of the Authority as at 31 March 2020. The statement shows the balances and reserves at the Authority's disposal, its long-term indebtedness, and the long-term and net current assets employed. The significant movements on the balance sheet are described below.

8.2. **Property, Plant & Equipment.** The value at which Property, Plant & Equipment assets are carried in the balance sheet has increased by a net £12M. The movement has been made up as follows:

	£000
Balance as at 1 April 2019	772,362
Capital Investment in year	41,442
Increases in Valuation*	4,888
Decreases in Valuation*	(11,610)
Depreciation in year	(21,251)
Disposals*	(1,386)
Transfers	(216)
Balance as at 31 March 2020	784,229

* See the Unusable Reserves paragraph

The increases in valuation were mainly as a result of an indexation increase applied to the council dwellings and other land and buildings to reflect the increase in value between the valuation date and the balance sheet date. The decreases in valuation were as a result of downwards revaluations identified as part of the rolling revaluation programme, a review carried out at the balance sheet date, and as a result of the regular review of the fixed asset register. The decreases related to various assets including newly constructed Council Dwellings, schools, libraries and exhibition centres.

8.3. **Heritage Assets.** The value at which Heritage Assets are carried in the balance sheet has decreased by a net £9M. The movement has been made up as follows:

	£000
Balance as at 1 April 2019	37,743
Capital Investment in year	3,636
Increases in Valuation*	64
Decreases in Valuation*	(11,044)
Depreciation in year	(491)
Balance as at 31 March 2020	28,908

The decreases in valuation were mainly as a result of the valuation of the pier structure which is a reflection of the high maintenance costs that it requires.

- 8.4. **Long Term Investments.** There has been an overall decrease of £0.8M due to the decrease in value of long term monies invested in property funds.
- 8.5. **Long Term Debtors.** This primarily represents the value of deferred payments in respect of Adult Social Care provision, and loans to South Essex College and to Porters Place Southend-on-Sea LLP for the Better Queensway regeneration project.
- 8.6. **Cash and cash equivalents.** There has been an overall decrease of £4M in cash and cash equivalents. This is mainly due to £55M of capital expenditure and £50m of external borrowing being undertaken towards meeting the Council's overall capital financing requirement.
- 8.7. **Short term Borrowing.** Short term borrowing has decreased year on year by £7M reflecting the repayment of a PWLB loan that was repayable in the year.
- 8.8. **Long term Borrowing.** Long term borrowing has increased year on year by £50M. This is due to external borrowing being undertaken to finance the capital investment programme.
- 8.9. **Other Long Term Liabilities - Pensions.** There has been a £7M decrease in the Council's pension liability, which is the amount by which future liabilities to pay pensions exceed the assets available. The total liability stands at £145M. Statutory arrangements for the funding of the deficit, whereby the deficit will be made good by increased employer contributions over the remaining working life of employees, as assessed by the scheme's actuary, means that the financial position of the Council in this regard remains healthy.
- 8.10. The net increase is attributable to both a decrease in scheme asset values and a decrease in scheme liabilities, as set out below:

	£000
Liability as at 1 April 2019	151,806
Decrease in Assets	30,034
Decrease in Liabilities	(37,318)
Liability as at 31 March 2020	144,522

- 8.11. The decrease in assets arises from the returns on investment and employer and employee contributions being less than the pension payments made to retired staff; the decrease in liabilities arises principally from a change in the financial assumptions used by the actuary and somewhat by the demographic assumptions around mortality rates, plus the inherent difference between the growth in new liabilities from current scheme membership and the discharge of liabilities to existing pensioners. Note 37 to the accounts sets out full details of the movement in the pension scheme.
- 8.12. **Usable Reserves.** The movement in usable reserves is set out under paragraph 7.2 above.

8.13. **Unusable Reserves.** These comprise the following reserves:

	Increase / (Decrease) £000	Closing Balance £000
Revaluation Reserve	(17,755)	259,337
Financial Instrument Revaluation Reserve	(1,292)	(838)
Pensions Reserve	7,284	(144,522)
Capital Adjustment Account	9,043	220,423
Deferred Capital Receipts	750	2,250
Collection Fund Adjustment Account	(1,632)	6,771
Short-term Accumulating Compensated Absences Reserve	(96)	(1,031)
Total Unusable Reserves	(3,698)	342,390

8.14. The Revaluation Reserve decreased by a net amount of £18M as a result of the amounts identified for revaluation by the rolling programme or other sources and by an exercise to apply an indexation uplift to the council dwellings and other land and buildings, which were permitted by the accounting code to be applied to the reserve. This was offset by amounts written out of the reserve relating to disposals of non-current assets.

8.15. The Pension Reserve movement is the contra entries for the movement in the Pensions Liability set out in 8.11 above.

8.16. The Capital Adjustment Account has increased by a net of £9M due to a combination of the following: charges for depreciation and revaluation gains and losses and impairment losses on non-current assets; disposals of non-current assets and the capital financing applied in the year.

8.17. Deferred Capital Receipts increased by £0.8M. This reflects the loans to Porters Place Southend-on-Sea LLP, referred to in 8.5 above.

9. Cash Flow Statement (Page 38)

9.1. This Statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows that there has been a net cash outflow of £3.6M.

10. Notes to the Accounts (Page 40)

- 10.1. The notes provide additional information and explanation behind the main statements, to aid understanding of presented figures.
- 10.2. The notes start by setting out the Accounting Policies. The Council's accounting policies set out the technical methodologies for accounting for a wide variety of issues within its accounts. The notes are then grouped together as they support their respective primary statement.
- 10.3. There is a series of notes (notes 6 - 8) in support of the Comprehensive Income and Expenditure Statement that explains the transition from the "normal" view of the Council's accounts as set out in our budgeting format, to the statutory format required in our year end accounts. Essentially it shows how statutory adjustments relating mainly to pensions, assets and capital are overlaid to produce the statutory accounts. This set of notes also provides a complete subjective breakdown of the income and expenditure account, and a detailed breakdown of the level of fees, charges and other income generated by each Portfolio, that is not reported elsewhere in the accounts.

11. Housing Revenue Account and Notes (Page 102)

- 11.1. The Housing Revenue Account is a record of revenue expenditure and income relating to the Council's own housing stock (the Landlord Function). Although strictly part of the overall General Fund, the HRA has a tight ring-fence around it that allows no general discretion to transfer sums into or out of the HRA. Expenditure and income relating to other housing functions, such as support to registered social landlords, rent rebates and homelessness, are chargeable to the General Fund.
- 11.2. Like the General Fund, the format of the HRA creates an Income and Expenditure Account, and a reconciling Statement of Movement on the HRA Balance. The movement on the Housing Revenue Account Balance for 2019/20 was as follows:

	£000
Balance as at 1 April 2019	3,502
Surplus / (Deficit) for year	nil
Balance as at 31 March 2020	3,502

- 11.3. Despite the nil change in the HRA revenue balance, the HRA actually generated a surplus after statutory adjustments of £4.0M. Rather than increase the main revenue reserve, this has been set aside into HRA earmarked reserves, principally to fund future capital investment.

12. Collection Fund (Page 110)

- 12.1. This account reflects the statutory requirement for billing authorities such as Southend-on-Sea Borough Council to maintain a separate Collection Fund,

which shows the transactions of the billing authority in relation to non-domestic rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

- 12.2. A deficit of £2.8M was generated on the Fund during the year, after the distribution of prior year surpluses of £2.9M. This means there is now an accumulated surplus at the year-end of £7.3M. This sum will be distributed between the three principal precepting authorities, including Southend-on-Sea Borough Council, and in the case of Business Rates to Central Government also, in future years. Southend's proportion of the accumulated surplus is £6.8M.

13. Group Accounts (Page 116)

- 13.1. The group accounts that merge the accounts of Southend Borough Council, its wholly owned companies South Essex Homes Ltd and Southend Care Ltd, 50% of its Joint Venture Porters Place Southend-on-Sea LLP and its eight Trust Funds, follow the same format as the council's own statements.
- 13.2. South Essex Homes made a trading surplus of £0.494M on a turnover of £12.1M, increasing to a surplus of £1.616M once statutory pension adjustments are taken into account. Southend Care made a trading surplus of £0.325M on a turnover of £8.0M, falling to a deficit of £0.487M once statutory pension adjustments are taken into account. Both companies have financial guarantees from the Council to underwrite these losses to enable them to continue to be regarded as going concerns.
- 13.3. Porter Place Southend-on-Sea LLP made a trading loss of £0.009M with no turnover but work in progress of £1.835M was recognised as a current asset.
- 13.4. The other companies and trusts that the Council has control over are immaterial to the overall group and have therefore not been consolidated.
- 13.5. A full list of owned companies, joint ventures and trusts are shown in Annex 1 to this Appendix.

14. Members Allowances (Page 133)

- 14.1. A schedule of allowances paid to Members and Co-opted Members is included in compliance with the requirement to publish these annually

15. Annual Governance Statement (Page 142)

- 15.1. The Annual Governance Statement is a corporate document, signed by the Chief Executive and the Leader of the Council. It is separately considered by this Committee elsewhere on this agenda, and is incorporated into the Statement of Accounts prior to publication.

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Appendix 3

Statement of Accounts 2019/2020

SOUTHEND-ON-SEA BOROUGH COUNCIL

STATEMENT OF ACCOUNTS

2019/20

Mayor

Councillor John Lamb

Leader of the Council

Councillor Ian Gilbert

Chief Executive and Town Clerk

Alison Griffin

Executive Director - Finance and Resources

Joe Chesterton

Southend-on-Sea Borough Council
Finance and Resources
PO Box 2
Civic Centre
Victoria Avenue
Southend-on-Sea
Essex
SS2 6ER



CONTENTS

INTRODUCTION TO THE 2019/20 ACCOUNTS	6
Narrative Statement	7
The Financial Statements	26
STATEMENT OF RESPONSIBILITY FOR THE STATEMENT OF ACCOUNTS	28
Statement of Responsibility for the Statement of Accounts	29
Approval of the Statement of Accounts	29
Executive Director (Finance & Resources)' Certificate	29
Independent Auditor's Report to the Members of Southend-on-Sea Borough Council	30
	32
MAIN FINANCIAL STATEMENTS	34
Comprehensive Income and Expenditure Statement	35
Movement in Reserves Statement	36
Balance Sheet	37
Cash Flow Statement	38
NOTES TO THE ACCOUNTS	40
Notes Contents List	41
Notes Supporting the Comprehensive Income and Expenditure Statement	54
Notes Supporting the Movement in Reserves Statement	66
Notes Supporting the Balance Sheet	72
Notes Supporting the Cash flow Statement	98
Other Notes	100
HOUSING REVENUE ACCOUNT	102
HRA Income And Expenditure Statement	103
Movement on the HRA Balance	104
Calculation of Movement on the HRA Balance	104
Notes to the HRA	105
THE COLLECTION FUND	110
The Collection Fund	111
Notes to The Collection Fund	112
THE GROUP ACCOUNTS	116
Introduction	117
Group Comprehensive Income and Expenditure Statement	120
Group Movement in Reserves	121
Group Balance Sheet	122
Group Cash Flow Statement	123
Notes to the Group Accounts	124
ADDITIONAL FINANCIAL INFORMATION	132
Members' Allowances (unaudited)	133
ABBREVIATIONS AND GLOSSARY	134
Abbreviations	135
Glossary	136
ANNUAL GOVERNANCE STATEMENT	142
Annual Governance Statement	143

INTRODUCTION TO THE 2019/20 ACCOUNTS

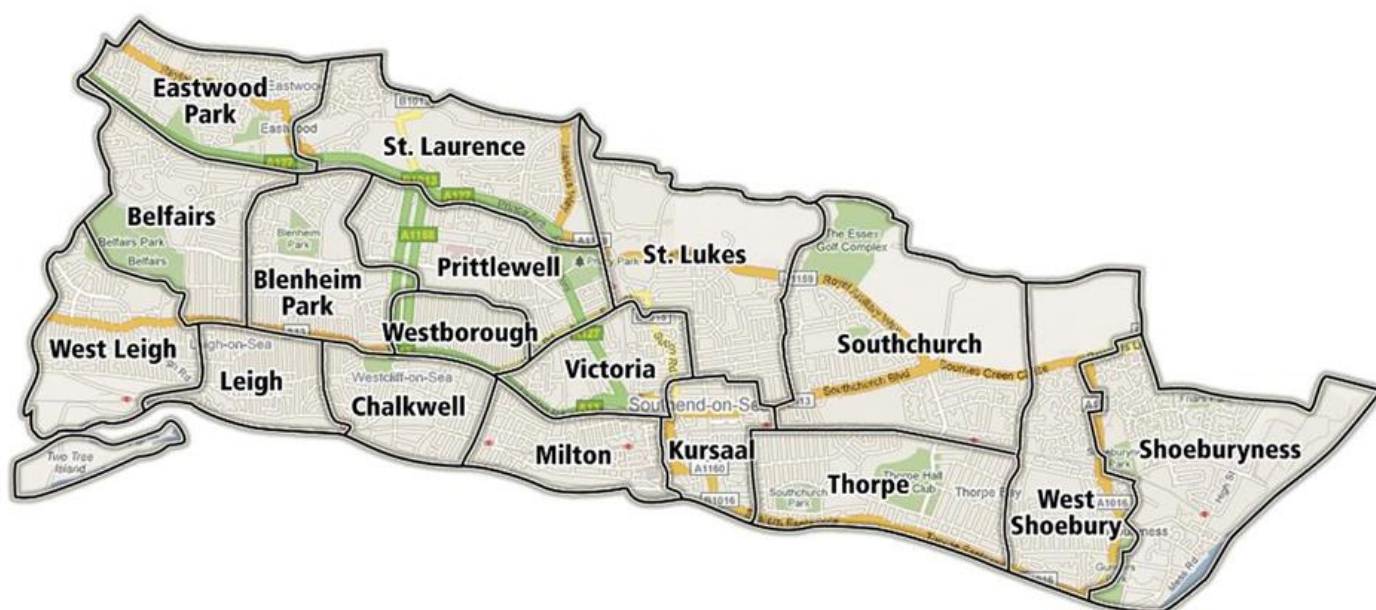
NARRATIVE STATEMENT

Welcome to the Statement of Accounts for Southend-on-Sea Borough Council for the financial year 2019/20.

The accounts give a true and fair view of the financial performance of the Council in delivery of services to the residents of Southend-on-Sea. It also summarises the overall financial position of the Council for the year ended 31 March 2020. The accounts and accompanying documents are subject to an external independent audit by Deloitte UK and their opinion forms part of this document.

BACKGROUND

Southend-on-Sea Borough Council is one of six unitary authorities in the East of England, responsible for the delivery of a range of key public services to a current population of over 182,500 residents in over 80,000 households and geographically covers an area of 16 square miles. The Council's turnover is circa £407m and our resources are well-managed through our budgetary and financial monitoring framework. The following graphic represents the geographical area that is served by Southend-on-Sea Borough Council.



The place is made up of mainly residential areas but also some industrial, commercial, and retail land and property. Over a third (35%) of our residents live in the top 30% most deprived areas in England, and this is particularly high in the East Central Locality, which includes the town centre. This locality covers the wards of St. Luke's, Victoria, Milton and Kursaal. A large proportion of children and working aged residents live in these most deprived areas, particularly compared to our residents who are aged 65 and over.

Southend-on-Sea is located on the Thames Estuary, within close proximity to Central London. It is bordered by Rochford (to the North) and Castlepoint (to the West). We are known as a resort town, and home to the world's longest leisure pier, built in 1830 that stretches for 1.34 miles. This attraction alone received over 330,000 visitors in 2019/20. The town generally welcomes around 7.5 million visitors every year, making Southend a popular seaside destination of choice.

The Council employs circa 1,900 (1,700 FTE) staff (excluding schools), who deliver a diverse range of services for residents, local businesses, and visitors.

Southend-on-Sea Borough Council is a multifunctional and complex organisation, its policies are directed by the Political Leadership and implemented by the officers of the Council.

POLITICAL STRUCTURE

Southend-on-Sea has 17 wards and the Council consists of 51 elected members. There is one Parish Council within the area, Leigh-on-Sea Town Council whose mission statement is to promote, represent and provide for the community of Leigh-on-Sea. This is governed by 16 elected members across 8 wards.

Southend-on-Sea Borough Council is responsible for the delivery of major borough wide services such as education, social care, waste collection, maintenance of the roads and pavements, looking after the parks, providing street lighting and many other services. Leigh-on-Sea Town Council delivers services to meet additional specific local needs, such as managing the community centre, running a volunteer programme, organising local events, administering local allotment sites and acting as statutory consultee on planning, highways and licensing issues.

The political make-up of Southend-on-Sea Borough Council as at 31 March 2020 is shown in the table below: -

Political Party	Number of Councillors
Conservative	20
Labour	14
Independent	9
Liberal Democrat	5
Non-aligned	2
Vacancy	1
TOTAL	51

The Council has been led by a joint political administration since May 2019. The coalition is made up of Councillors from the following political parties - 14 Labour, 9 Independents, and 5 Liberal Democrats.

The Council has adopted the Leader and Cabinet model as its political management structure arising from the Local Government and Public Involvement in Health Act 2007. The requirements of the Act are such that the Leader of the Council has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions.

The Cabinet is the part of the Council which is responsible for the decisions made within the constitution approved by Full Council. The Cabinet is made up of the Leader, Deputy Leader and 5 other Members.

MANAGEMENT STRUCTURE

Supporting the work of the elected Members is the Council's most senior level officers. A new professional executive leadership team was assembled in 2019/20 and as at 31 March 2020, this team was as follows: -

Position	Name	Started in 2019/20
Chief Executive and Town Clerk	Alison Griffin	
Deputy Chief Executive and Executive Director (Growth and Housing)	Andrew Lewis	
Executive Director (Finance and Resources)	Joe Chesterton	
Executive Director (Adults and Communities)	Tandra Forster	7 January 2020
Executive Director (Children and Public Health)	Michael Marks	9 January 2020
Executive Director (Neighbourhoods and Environment)	Larissa Reed	11 November 2019
Executive Director (Transformation)	Joanna Ruffle	
Executive Director (Legal and Democratic Services)	John Williams	

SOUTHEND 2050 AMBITION AND PRIORITIES

Building on the extensive engagement and consultation exercise undertaken with residents and key local stakeholders during 2018, work was undertaken in 2019/20 to begin to align investment against these priorities. The creation of a new long term borough ambition has also resulted in the introduction of a revised approach to the Council's business planning framework which is now clearly driven by 5 Strategic themes, each theme is supported by its own individual plan containing 4-5 focussed outcomes for delivery by 2023 (23 outcomes in total). As part of the Council's organisational learning from Covid-19, each theme and each outcome will be reviewed, and the delivery plans refreshed in 2020/21.

The 5 themes are summarised in the following graphic:



Delivering better outcomes by carefully targeting scarce resources to where it matters most and where it has the biggest positive impact has been a key feature of 2019/20. For more information and insight into the Council's approach and roadmap for delivery see the **Southend 2050**¹ pages on our website.

STRATEGIC FINANCE DEVELOPMENTS IN 2019/20

Southend-on-Sea Borough Council, along with most Local Authorities across the country, continues to face significant challenges in providing essential services to meet the needs of local residents within the level of resources it has at its disposal. This was taken to whole new level of complexity and challenge towards the end of 2019/20 with the worldwide impact of the Covid-19 pandemic.

The Council's strategic response to this situation (prior to Covid-19) in 2019/20 had been to develop a new high-level **Financial Sustainability Strategy for 2020-2030**² and comprehensively update its **Medium Term Financial Strategy for 2020/21-2024/25**³, which were both approved by Council as part of setting the 2020/21 budget in February 2020 and are available on our website. These key strategies outline the Council's ambition, approach, desire and commitment to do everything it can to reflect and learn from the past in order to plan more effectively for the future, investing in priorities that make a real positive difference locally. This is predicated on ensuring that the Council remains financially stable and resilient as it moves towards a position of financial self-sustainability.

The Council also began to introduce a new approach to outcomes-based planning and budgeting in 2019/20 which looked at repurposing resources towards agreed priorities and outcomes. This development work was designed to target resources more effectively to achieve better outcomes for local residents, businesses, and visitors. The approach formed a major part of the Council's programme to finance the key priorities that were outlined in the road map to 2023. The ambition for Southend 2050 was developed with local communities for local communities.

¹ <https://www.southend.gov.uk/southend2050>

² <https://www.southend.gov.uk/downloads/file/6698/financial-sustainability-strategy-2020-2030>

³ <https://www.southend.gov.uk/downloads/file/6697/medium-term-financial-strategy-2020-21-to-2024-25>

Other new initiatives introduced in 2019/20 included the development of a fully integrated revenue and capital budget report for the first time and improved arrangements for financial performance reporting. These new combined revenue and capital financial performance reports were presented to Cabinet and Scrutiny Committees and given greater prominence as a separate single item on the agendas. These reports provided more financial insight, highlighted major variations from approved revenue and capital spending plans for the year, facilitated greater understanding of key issues by identifying additional demand pressures and any delivery challenges.

The new improved financial reporting arrangements introduced in 2019/20 highlighted early in the financial year that the revenue financial pressures that were prevalent in 2018/19 were continuing. These were caused primarily by increases in demand for key services in social care and also some delays and challenges in the delivery of individual projects within the capital investment programme.

FINANCIAL OVERVIEW 2019/20

The General Fund Revenue Account for 2019/20 had a net expenditure budget of £122.591M (gross expenditure £328.434M; gross income £205.843M). Revenue spending covers the day to day running costs of the Council's services, such as schools, social services, and leisure. This spending is financed by government grants, council tax, retained business rates and other income such as fees and charges. The Council agreed a council tax requirement, including Leigh-on-Sea Town Council precept, of £81.2m for 2019/20 (£76.6m for 2018/19).

The Resourcing Better Outcomes – Outturn report for 2019/20 was reported to Cabinet on 16 June 2020 and the full report is available [here](#)¹.

It provides a comprehensive analysis of the financial performance for the General Fund, Housing Revenue Account (HRA) and Capital Investment Programme.

The General Fund Revenue Budget was dominated by major demand pressures and additional costs in Adults and Children's social care services for our most vulnerable residents. This experience has been replicated in a high proportion of other upper tier local authorities right across the country. Despite attempts to minimise the overall financial impact from these pressures in-year, the sheer scale and complexity of demand has resulted in significant additional investment going into the critical service areas of Adults and Children's Social Care. These, together with additional investment in responsive maintenance for our roads and highways network, were the major drivers behind the final General Fund outturn reporting a net overspend of £4.544M. This has been financed by appropriations from earmarked reserves.

An earmarked reserve for Adult Social Care (within Service Reserves) totalling £3.028M was specifically created for the demand risks and associated costs that have materialised in 2019/20. An appropriation of £2.794M was actioned from this reserve in 2019/20. The balance was met by an appropriation of £1.750M from other earmarked reserves (£2.794M + £1.750M = £4.544M). So, there is no change to the General Fund Revenue Balance of the Council.

The Housing Revenue Account (HRA) performed strongly in 2019/20 and reported an in-year surplus of £1.030M (£1.510M for 2018/19), principally generated through additional income. This has been appropriated to the Capital Investment Reserve to enable further investment to be made in the Council's housing stock, creating better conditions and environments for local tenants.

The level of earmarked reserves held by Southend Borough Council (including maintained schools) as at 31 March 2020 is £107.404M (£106.683M at 31 March 2019) (see note 20, page 71). This demonstrates the financial strength and resilience of the Organisation and places it in a robust position to continue to navigate the ongoing challenges of both increases in demand and complexity for critical services in the future.

The following table shows the final outturn position for 2019/20 on a net expenditure basis. The positive variance highlighted for Retained Business Rates represents an increase in the value of business rates in the local area and also includes the benefits of being in the Essex Business Rates pool. Collection rates for Council tax have remained similar to previous years but there was a lower than expected growth in the number of additional domestic dwellings and an increase in the number of eligible discounts granted, particularly for single persons across the Borough. The analysis of the actual costs reflects the way the Council's finances are managed, as opposed to the statutory required analysis used in the Statement of Accounts itself.

¹ <https://democracy.southend.gov.uk/documents/s39152/ExD03%20Resourcing%20better%20outcomes%20-%20outturn>

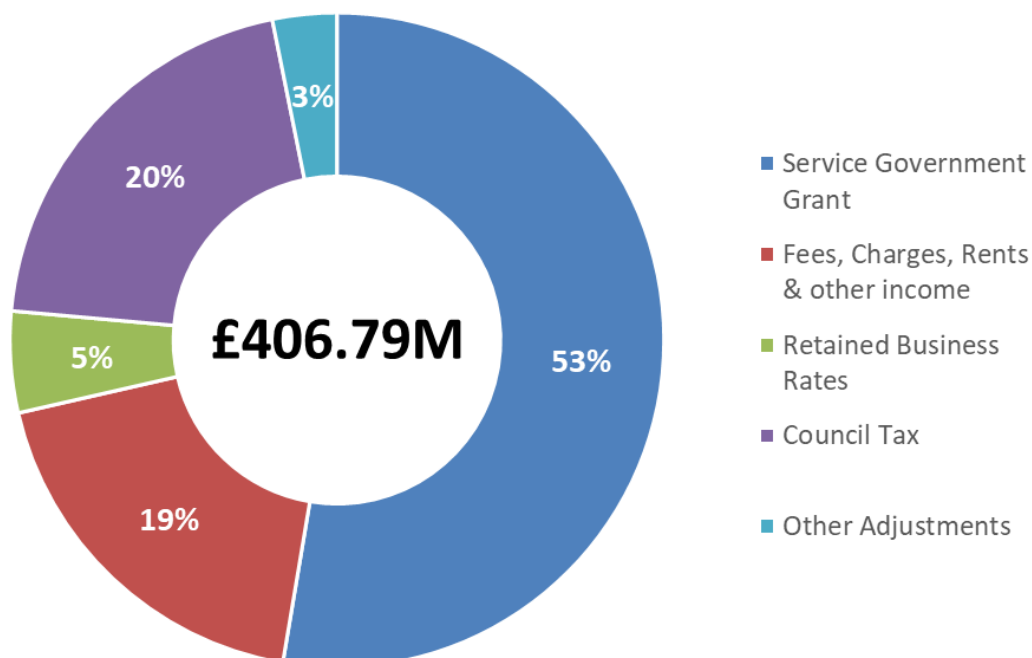
		2019/20	
	Budget	Actual	Variance
	£000	£000	£000
Portfolios			
Leader: Housing, ICT, Revenue & Benefits	18,225	18,535	310
Deputy Leader: Assets, Highways & Transport	3,199	5,853	2,654
Business, Culture and Tourism	4,888	4,955	67
Children and Learning	29,338	34,752	5,414
Community Safety and Customer Contact	2,264	2,288	24
Environment and Planning	20,509	19,800	(709)
Health and Adult Social Care	39,396	39,431	35
Housing Revenue Account	(7,095)	(7,039)	56
Corporate Budgets	4,605	1,347	(3,258)
Net Cost Of Services	115,329	119,922	4,593
Statutory Adjustments	(3,733)	(4,031)	(298)
Adjusted Net Cost of Services	111,596	115,891	4,295
Levies	643	576	(67)
Leigh Town Council Precept	422	422	0
Financing Costs, Interest etc.	14,579	15,887	1,308
Net Operating Expenditure	127,240	132,776	5,536
Revenue Contribution to Capital	3,016	5,549	2,533
Non Service Specific Grants	(4,040)	(9,203)	(5,163)
Contribution to / (from) Earmarked Reserves	(147)	(1,772)	(1,625)
Total to be Funded from Council Tax and Formula Grant	126,069	127,350	1,281
Funded from			
Revenue Support Grant	(5,925)	(5,925)	0
Retained Business Rates	(36,467)	(38,447)	(1,980)
Collection Fund Surplus and Reserves	(2,500)	(2,500)	0
Council Tax (Southend-on-Sea Borough Council and Leigh Town Council)	(81,177)	(80,478)	699
Total Funding	(126,069)	(127,350)	(1,281)
Contribution (to) / from General Reserve	0	0	0

The table below reconciles the analysis of the Comprehensive Income and Expenditure Statement (see page 35) to the outturn summary on the previous page.

Reconciliation of Gross Expenditure to Transfer to General Fund	2019/20 £000
Gross Expenditure on Services	406,790
Gross Income on Services	(401,247)
Net Cost of Services	5,543
Adjustments between accounting basis and funding basis under regulation	(6,264)
Transfers from Earmarked Reserves and HRA	721
Contribution (to) / from General Reserve	0

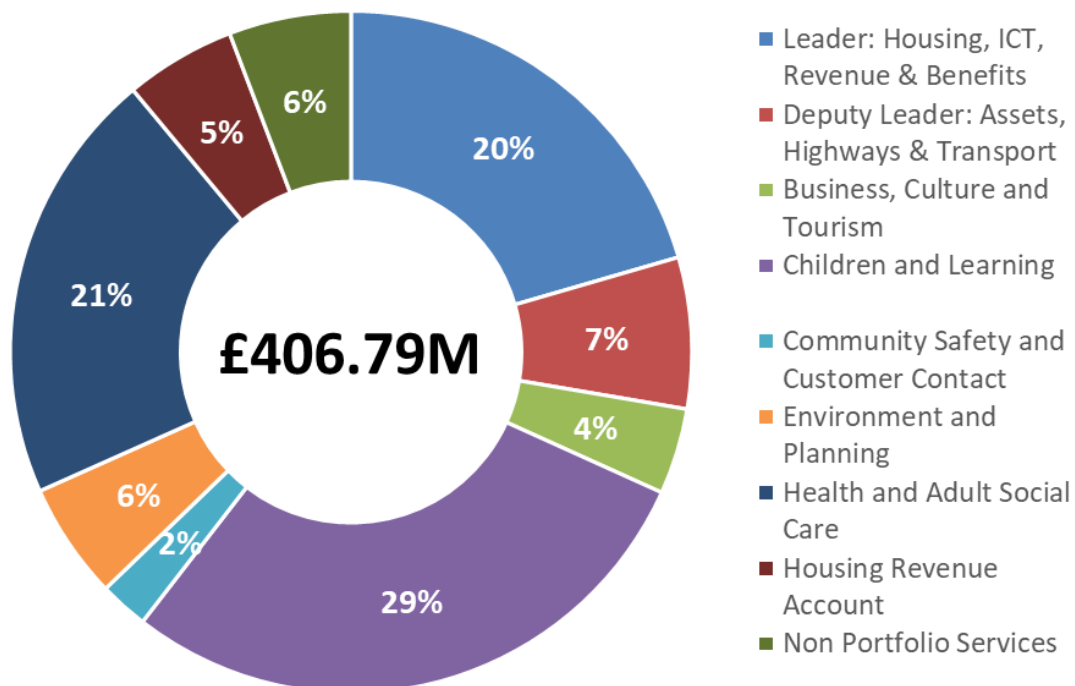
The “Transfer (to) / from the General Reserve” of nil is common throughout, regardless of the format of the information. The Council has spent £406.790M to deliver services funded by £406.790M of income in 2019/20. The following charts show how the money was funded in 2019/20 and how it was spent.

Revenue Income (Funding Sources) 2019/20 - £406.79M



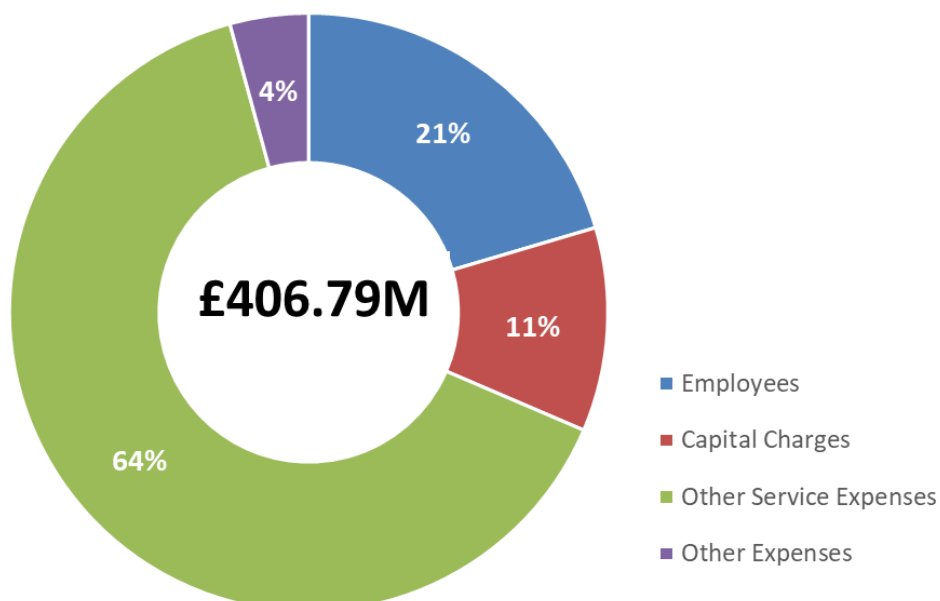
The above diagram sets out how gross expenditure is funded. The largest source of income is government grants (see note 18, page 65 for a full analysis). Other adjustments include the appropriate application of earmarked reserves and reversal under statutory regulations for accounting charges that are put through the income and expenditure statement.

Gross Revenue Expenditure Objective (Service Area) 2019/20 - £406.79M



The above diagram sets out how gross expenditure is split across the various portfolios of services the Council operates under. Leader: Housing, ICT, Revenues & Benefits includes the £60M cost of housing benefit payments made. Children & Learning includes the passing onwards of dedicated schools' grants and other payments to the Council's maintained schools. Non portfolio services include interest payable, levies and payments to the Government Housing Capital Receipts Pool.

Gross Revenue Expenditure Subjective (By Type) 2019/20 - £406.79M

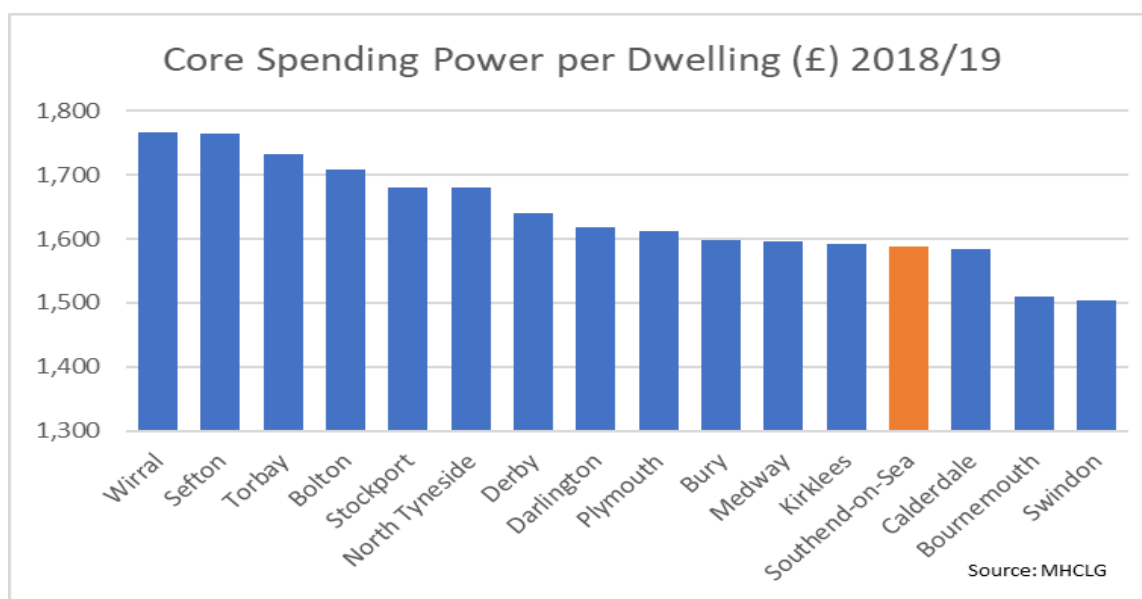


The above diagram sets out how gross expenditure is split by type. Other service expenses cover the running costs of services excluding employees, and therefore includes the cost of suppliers and contractors, together with monies paid out to schools and benefit claimants. Other expenses cover several accounting charges put through the income and expenditure statement, only to be reversed under statutory regulations.

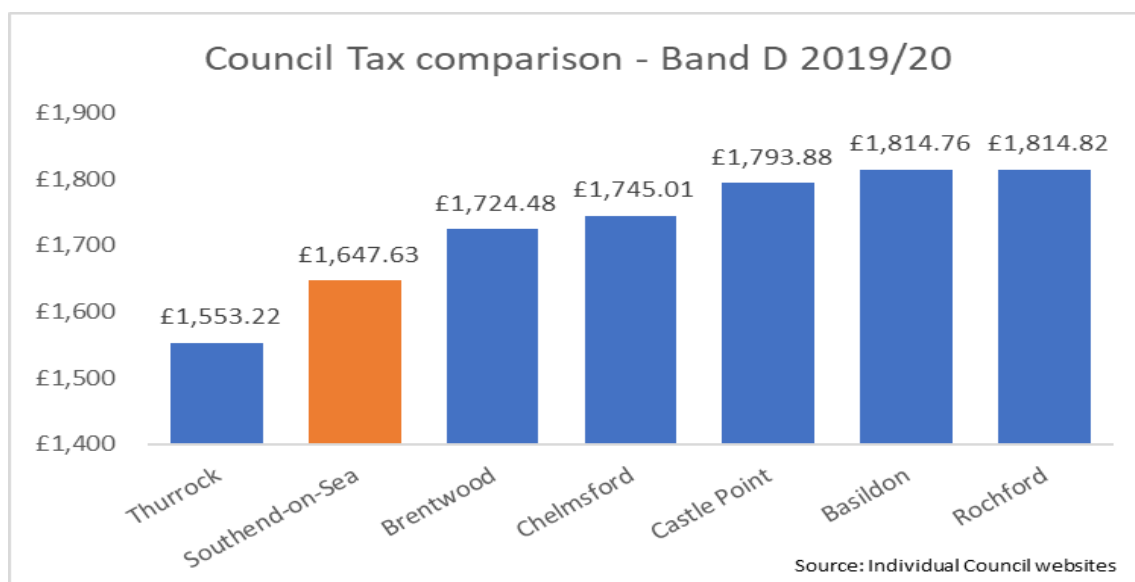
ECONOMY, EFFICIENCY AND EFFECTIVENESS

The Council is continually striving to improve all aspects of the organisation in terms of value for money. Its goal is to also improve the wellbeing and productivity of all staff by investing in technology, encouraging innovation, creativity, and modern ways of working via the WorkLife initiative. A programme of major service redesign is already in place to help meet the evolving needs of local residents, improve their customer experience, whilst also enabling them to be more independent and local communities more self-sufficient and sustainable. This helps to target resources where they are needed most.

To inform and highlight the Council's relative success in delivering the full range of unitary authority services locally with less resources – the following table illustrates where the Council ranks based on the spending power per dwelling against our nearest statistical neighbours comparator group. The Council has the 13th lowest spending power per dwelling out of 16 authorities within our group – which means that it has less comparable resources available to meet the relative needs of local residents, when compared with similar local authorities.



Equally from a local perspective the Council is also determined to minimise the financial burden on the local council taxpayer for Southend-on-Sea as far as possible. The following graph illustrates the level of council tax (Band D equivalent) charged by Local Authorities from our nearest geographical neighbours in Essex for 2019/20. This is an important factor when considering Southend-on-Sea's commitment to providing value for money services that meet the needs of local residents. It is also worth noting that over 70% of properties in the Borough are in Council Tax bands A to C.



ACHIEVEMENTS IN 2019/20

2019/20 was a year of successes across our 400+ services with a variety and complexity unlike any other organisation locally. Not every resident will use every service, but the work of the Council is vital to the wellbeing and way of life of residents right across the borough. The Council's achievements include:

Investing over £5m to buy private local homes to create new council homes – already several local families have moved out of temporary accommodation into these new council homes and we have more in the pipeline.



Agreeing terms which will see the creation of around 1,300 new homes for market and affordable rent at Roots Hall and Fossett's Farm and the development of a new stadium for Southend United Football Club.



Signing a joint venture with Swan Housing Association to deliver a Better Queensway with significant local affordable housing, the biggest housing regeneration the town has seen and progressing with the leisure development at Seaways Car Park.



Supporting local volunteers to plant 1,500 tree whips and replant standard trees in 6 locations during National Tree Week.

Pushing on with our drive to become carbon neutral through initiatives such as Plasticity and ForwardMotion, encouraging residents to be more environmentally friendly.

Working with partners to deliver skills, employment and training initiatives that have led to an increase in young people in training, education, and employment, and supporting our fantastic schools to continue to perform above the national average.



Created the #PrideAndJoy social media campaign, with the objective to flood the internet with positive images of Southend, to spread a sense of pride and joy across the borough, of which has had a positive response, reaching over 163,000 people across all social media channels.

The Council's ambition, priorities, achievements, and performance for 2019/20 are all summarised in the **Annual Place Based Report**¹ which is available on our website.

CAPITAL EXPENDITURE

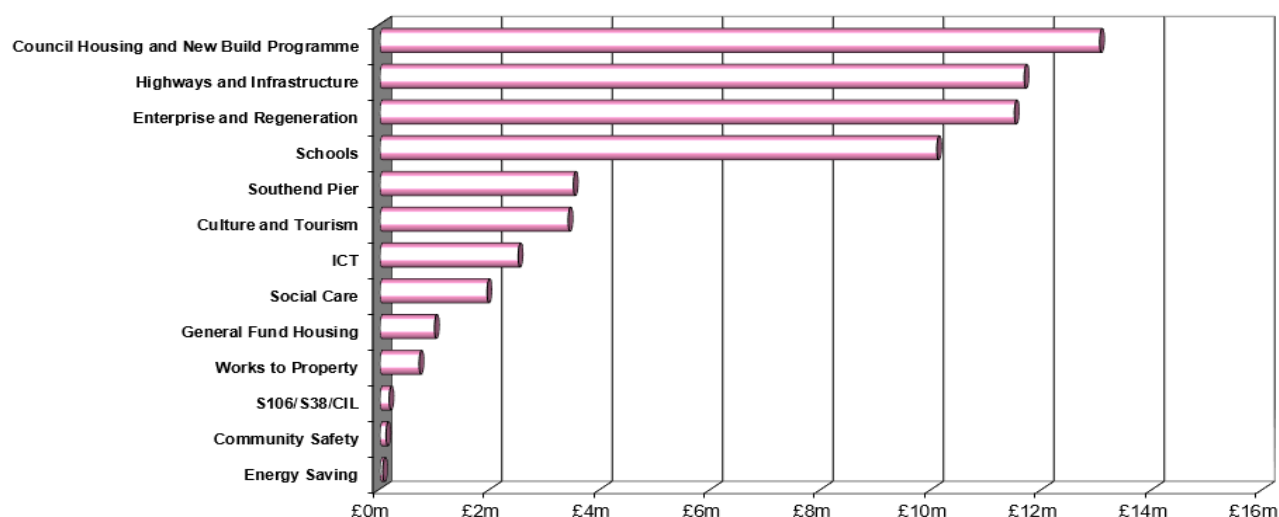
As well as delivering vital day to day services for local residents, businesses and visitors, the Council continues to be at the heart of investment in the local area, improving assets to deliver services more efficiently and effectively and creating the right conditions to attract additional private sector investment.

Capital spending can generally be defined as that which generates assets that have a life of more than one year. This includes the acquisition or construction of new assets and expenditure that improves, and not merely maintains, the value of existing assets.

In 2019/20 the Council invested £59.7m (£50.0m in 2018/19) into capital schemes to continue to improve Southend as a place, including the development of the Airport Business Park, investment to facilitate the delivery of Better Queensway which will be the largest housing and regeneration project the Council has undertaken since the 1960's, the re-development of the Delaware and Priory Residential Care homes, the provision of new secondary school places, improvements to the town's highways and footpath network and the second phase development of the Forum.

CAPITAL INVESTMENT 2019/20

A summary of the investment programme is shown in the following chart:



In the chart above, S106 agreements are planning obligations under Section 106 of the Town and Country Planning Act. S38 agreements are highways obligations under Section 38 of the Highways Act 1980. CIL refers to the Community Infrastructure Levy charged on new developments which is used to fund infrastructure.

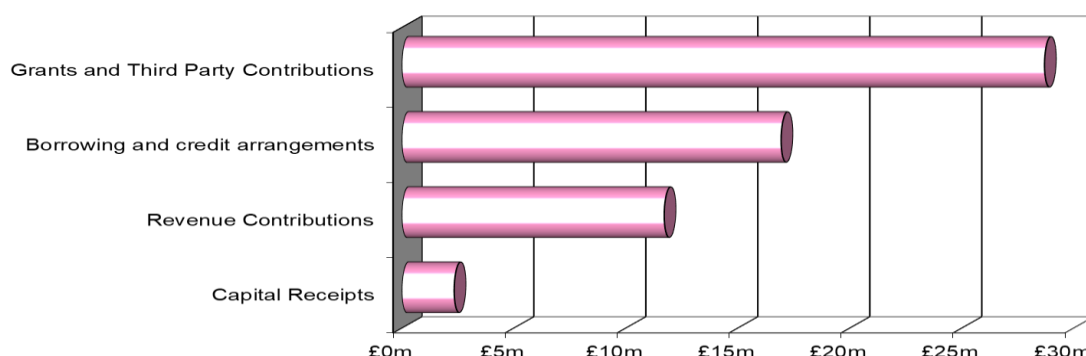
¹ <https://democracy.southend.gov.uk/documents/s39165/Report%20of%20Executive%20Director%20Transformation.pdf>

The following table summarises the strategic capital projects that the Council has undertaken this year.

	2019/20 £000
Airport Business Park	10,234
Provision for Secondary School Places	9,273
Affordable Housing Acquisitions Programme	6,680
Southend Pier	3,506
Local Growth Fund - A127 Growth Corridor	2,205
Delaware and Priory new build	1,701
Better Queensway	1,260
Forum Expansion	668
Civic Campus - efficient use of space	235
Construction of New Housing on HRA Land	219

FINANCING OF CAPITAL EXPENDITURE

The external funding of the capital investment programme comes from several sources, including government funding, third party (often private sector) contributions, capital receipts from the sale of assets, and borrowing. The following diagram shows how the £59.7m capital expenditure was funded for the 2019/20 year.



Borrowing is kept within affordable levels, with the total accumulated loans owed to external lenders and credit arrangements amounting to £321.5m at 31 March 2020 (£277.8m at 31 March 2019).

The Council also owes money to Essex County Council in respect of assets transferred to Southend-on-Sea Borough Council in 1998 as part of the Local Government Re-organisation. The amount is £10.7m at 31 March 2020 (£11.3m at 31 March 2019).

The Council's operational upper limit for borrowing has been set at £350m (excluding transferred debt) (£285m in 2018/19). Accounting for the borrowing outlined above, this leaves headroom of £28.5m (£7.2m in 2018/19).

This level of debt should also be viewed in relation to the Council's long-term assets which have a net book value of £893.2m at 31 March 2020 (£890.6m at 31 March 2019).

LONG TERM ASSETS

The Council's long-term assets are those expected to provide benefits beyond 12 months and consist of Property, Plant & Equipment, Heritage Assets, Investment Property, Intangible Assets, Long Term Investments and Long Term Debtors. At 31 March 2020, the total net book value of these long-term assets was £893.7m (£890.6m at 31 March 2019).

As a result of the Government's recent policy on the transfer of schools to academy status, over the last few years many of the borough's schools have transferred. No schools transferred in 2019/20 and it is not anticipated that any further

schools will transfer in the forthcoming year. If any did, this would reduce the current net book value of the long-term assets held of £52.7m at 31 March 2020 (*54.7m at 31 March 2019*) for schools on the Council's Balance Sheet.

HOUSING

The Council is required by statute to maintain the Housing Revenue Account (HRA) in overall surplus, which includes balances brought forward from the previous year.

For the 2019/20 year the HRA has maintained a general balance carried forward of £3.5M (*£3.5M 2018/19*). Council rents for general needs and sheltered properties were decreased by 1% again in 2019/20 (*decreased by 1% in 2018/19*) as required by the Welfare Reform and Work Act 2016 and in line with government guidance. 2019/20 was also a 53-week rent year.

In 2019/20 average rents for general needs properties (excluding service charges) were £86.83 per week (£87.88 in 2018/19), and £75.64 per week (£76.51 in 2018/19) for sheltered accommodation.

The full financial performance of the HRA is reported on pages 102 to 108.

GROUP PERFORMANCE

Local Authorities with subsidiary companies, associated companies and joint ventures are required to prepare group accounts. The Council has two wholly owned subsidiaries, South Essex Homes Limited and Southend Care Limited that prepare and publish their own accounts, which are then consolidated with Southend-on-Sea Borough Council.

In addition, the Council has four other subsidiary companies and is party to six joint ventures. Of these, only one of the joint ventures, Porters Place Southend-on-Sea LLP, has been consolidated. This has been the only change to the group structure since last year.

The Council is also sole trustee for eight Trusts, all of which have been consolidated as part of the Group Accounts. (See page 116)

FINANCIAL HEALTH OF THE COUNCIL AS AT 31 MARCH 2020

ASSETS

During 2019/20 fixed assets have increased in value by £3.3M due to the net effect of additions, disposal, revaluations, and depreciation.

Fixed assets included in the Balance Sheet at current value are revalued or have indexation adjustments applied sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum are revalued every five years.

For additional information see notes 21 to 24 on pages 72 to 78.

CAPITAL INVESTMENT AND BORROWING

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a measure of the Council's debt position and represents capital expenditure up to the end of 2019/20 which has not yet been charged to revenue. The process of charging the capital expenditure to revenue is a statutory requirement and is done by means of the Minimum Revenue Provision. The table below summarises the position for 2019/20.

	2019/20 £M
Balance 1 April 2019	360.0
Plus: capital expenditure financed by borrowing (internal and invest to save financing)	16.9
Less: Minimum Revenue Provision	(4.3)
Balance 31 March 2020	372.6

The CFR is the Council's theoretical need to borrow but the Council's actual borrowing position can be managed by either borrowing to the CFR, choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or borrowing for future increases in the CFR (borrowing in advance of need).

The Council has currently addressed the theoretical need to borrow by having undertaken external borrowing and credit arrangements of £321.5M and by internally borrowing the remaining £51.1M. Actual borrowing will only be undertaken as and when required to finance capital and the amount and timing of any loans will have regard to the Council's cash flow, the prevailing interest rates and the future requirements of the capital investment programme.

The capital investment programme over the next five years is planned to be financed as follows:

	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	Total £M
Borrowing	46.0	29.0	9.2	5.6	10.5	100.3
Grants and third-party contributions	25.8	28.0	2.4	0.9	0.3	57.4
Revenue Contributions	18.5	14.2	10.2	6.7	6.0	55.6
Capital Receipts	5.6	3.3	1.5	0.1	0	10.5
Total	95.9	74.5	23.3	13.3	16.8	223.8

PENSIONS

The Council participates in the Local Government Pension Scheme administered by Essex County Council. It is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into the fund, calculated at a level to balance the pension liabilities against investment assets.

The fund is subject to a valuation every three years. The 31 March 2016 and 31 March 2019 valuations set the contribution rates from 2017/18 to 2019/20 and from 2020/21 to 2022/23 respectively. At 31 March 2016, the funding level for the whole fund was estimated at 89% and the Council agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 8 years. At 31 March 2019, the funding level for the whole fund had improved and was estimated at 97% and the Council agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 5 years.

For additional information see note 37 on page 90.

RESERVES

The Council's reserves consist of general and earmarked reserves. The movement in Reserves Statement (see page 36) shows the split and movement of those reserves during the year.

The Council maintains a level of balances and reserves to meet any future unforeseen expenditure that may arise and for any planned future expenditure. These balances are held in the form of a general contingency such as the General Fund Balance, or for a specific purpose in the form of an earmarked reserve.

The Council has comprehensively updated its Medium Term Financial Strategy based on the best possible information it had available at the time (approved February 2020) and before the impact of the worldwide Covid-19 pandemic. The Council must consider emerging risks such as uncertainty of future funding levels from 2021/22, and other external factors such as the impact of Covid-19, Brexit, internal risks including increased commercial activity and the challenges faced by all council's relating to increasing demand and complexity in areas like social care. These factors have contributed to the Council continuing to maintain a General Fund Balance of £11.0M at 31 March 2020 (£11.0M at 31 March 2019).

The Council also holds £72.288M of general fund earmarked reserves as shown in the following table.

Earmarked Reserve	Opening Balance 1 April 2019	Contributions/(Use) 2019/20	Closing Balance 31 March 2020
	£M	£M	£M
Capital Investment Reserves	12.638	(1.231)	11.407
Insurance Reserves	6.800	(0.837)	5.963
Corporate Reserves	32.907	8.660	41.567
Service Reserves	14.018	(5.623)	8.395
Grant Reserves	4.250	0.653	4.903
Monies held in Trust	0.053	0.000	0.053
Total	70.666	1.622	72.288

The HRA's financial strategy includes a determination that a prudent level of the HRA General Balance is £3.5M, having regard for the inherent levels of future financial risk and uncertainty. The Council's HRA holds £31.921M of earmarked reserves as shown in the following table.

HRA Earmarked Reserves	Opening Balance 1 April 2019	Contributions/(Use) 2019/20	Closing Balance 31 March 2020
	£M	£M	£M
Capital Investment Reserve	25.106	(1.925)	23.181
Revenue Major Repairs Reserve	6.763	1.397	8.160
Contract Pension Reserve	0.520	0.060	0.580
Total	32.389	(0.468)	31.921

The HRA also maintains another Major Repairs Reserve which is limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance of this reserve at 31 March 2020 is £8.139M and represents the level of capital resources that have yet to be applied at the year-end.

There are also usable capital receipts of £16.5M (£4.9M general fund and £11.6M HRA) and capital grants not yet applied of £15.6M available to finance future planned capital expenditure.

The maintained schools in the borough also hold £3.2M of balances. These, together with the general fund and HRA earmarked reserves in the tables above, comprise the total of £107.404M of earmarked reserves shown in note 20 on page 71.

EU REFERENDUM AND BREXIT

On 23 June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Following the General Election on 12 December 2019, a new Conservative Government was elected, and Parliament ratified the withdrawal agreement. The UK left the EU at 11pm GMT on 31 January 2020. This began a transition period that is set to end on 31 December 2020, during this time the UK and the EU are negotiating their future relationship. The outcome of these negotiations will determine what arrangements will apply in relation to the terms of the UK's exit.

Southend-on-Sea Borough Council have been preparing for this event and the possible impacts which could occur locally and regionally. A cross-Council working group was established and has met on a regular basis, chaired by the Brexit lead with input from the Essex Resilience Forum and the East of England Local Government Association. This remains a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

COVID-19 INITIAL FINANCIAL ASSESSMENT

It is far too early to assess the overall health and economic impact of Covid-19. The challenge is clearly worldwide, and national governments continue to wrestle with putting in place the right package of measures to save lives and to try to minimise the spread of the virus and its impact across the population. Consideration has now also turned to how they can safely get their respective economies working again. In the United Kingdom, local government, working in partnership with other agencies and local communities will continue to have a critical role to play in responding to the crisis. The sector will be at the forefront of implementing the relaxation to any lockdown arrangements, shaping the transition and recovery within a new national framework.

The current financial landscape and operating environment remains challenging and uncertain but the Council is determined to build on the positive initial local response to the crisis and to try to ensure that the key elements that will lead to a stronger recovery for the town, local residents and local businesses are in place. The Southend 2050 ambition and ongoing review of arrangements for delivering the road map of priority projects is not only still relevant but also crucial for Southend-on-Sea's future prosperity. Effectively managing the short- and medium-term financial challenges that Covid-19 has brought to the Borough will be an important factor in the area's future success.

An initial local financial assessment of Covid-19 was presented to a special Cabinet meeting on 9 June 2020 and is available on our [website](#)¹.

The Authority responded positively and quickly to the challenge that Covid-19 brought to the Borough. The immediate priority was given to keeping local people and everyone connected with our organisation safe. The Authority mobilised support for residents and businesses and at incredible speed developed the capability for a large proportion of our workforce to continue to work safely and remotely.

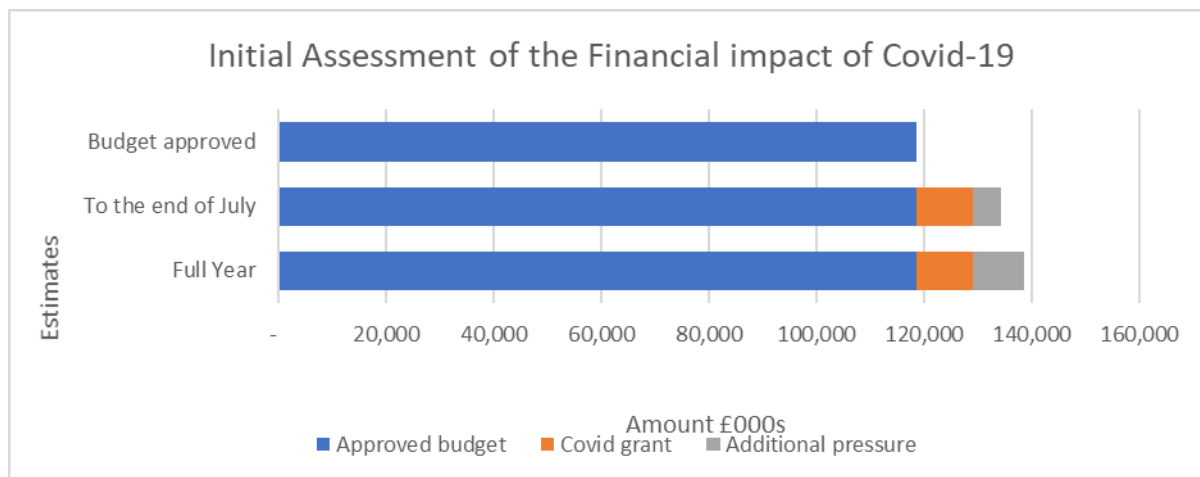
The Authority has also re-deployed staff to priority areas such as food and PPE distribution, community hubs and safety support, together with enabling processes for new requirements like business grants to be paid. The Authority has not furloughed any staff, despite the challenges and reductions in income in certain service areas.

Careful consideration is being given to the financial and operational impact of the phasing of the relaxation of the lockdown measures. This includes the transition to the new normal, the impact on activity levels (particularly income) and then any currently potentially hidden demand for key social care services that might result directly from the isolation and stress caused locally by the pandemic. At this early stage, the estimated total cost to the Council for 2020/21 is very difficult to quantify. Building up a financial assessment of the impact of the easing of the lockdown measures, together with a potential increase in social care pressures, the added difficulty of delivering recovery savings plans and the impact on income collection, then the total gross cost could be in the region of £15M to £20M on the Council's budget for 2020/21. We have currently received £12.1M (Tranche 3 - £1.571M was received in July 2020) of emergency Covid-19 grant support to help with this challenge.

Another key area of concern is the current lack of any clarity from Central Government over the potential future level of funding settlements for local authorities. This adds further significant complexities and challenges to our future business planning arrangements.

The Cabinet report in June contained the following bar chart which illustrated the estimated financial impact against the Council's approved General Fund Service Budget for 2020/21. The assessment was based on a complex series of assumptions and the best information available at the time of writing the report. The key concern was highlighted as the forecasted £5.2M (shaded grey) unfunded pressure to the end of July 2020, which could increase to around £9.5M by the end of 2020/21.

¹ <https://democracy.southend.gov.uk/documents/s39052/Covid-19%20Finance%20Cabinet%20Report%209%20June.pdf>



The report recognised that after the initial urgency of our response passed, more time has now been devoted to designing, preparing, and implementing our transition and restoration to whatever the new normal will look like. Our strategic response has been to try and reduce our financial exposure in lower priority areas, make sure we passport all new Government support to local businesses and residents as fast and as accurately as we can, fully deploy the circa £12.1M of emergency grant funding that we have already received and clearly evidence and lobby Central Government for additional resources.

If no further resources were secured from Central Government and our current estimates over the size of the financial gap are realised, then we would have to look again at in-year service changes and our earmarked reserves to try and fund the difference. This would be very challenging and could have major repercussions for our future medium-term business planning, leading to some very difficult choices in terms of reducing our future cost base and ultimately our permanent local service range and offer. We are also reviewing services by reflecting on the Covid-19 experience, capitalising on digital first technologies to drive efficiencies and improve productivity and deliver a different customer experience remotely and off a lower cost base. Although this is challenging the financial resilience and sustainability of the Authority remains strong and we are confident that we have sufficient reserves and expertise to help the Authority navigate the unprecedented circumstances that Covid-19 has brought to our borough and organisation.

It is recognised that understanding the direct and indirect impact on local demand for services and the potential permanent pressures on the revenue base of the Council over the medium term is still difficult to determine at this time. Cabinet agreed to receive regular reports to future meetings throughout 2020/21 containing updated assessments on the financial position and to outline any changes to the Council's strategy and range of assumptions. A comprehensive updated report will be presented to the Cabinet Meeting scheduled for 15 September 2020.

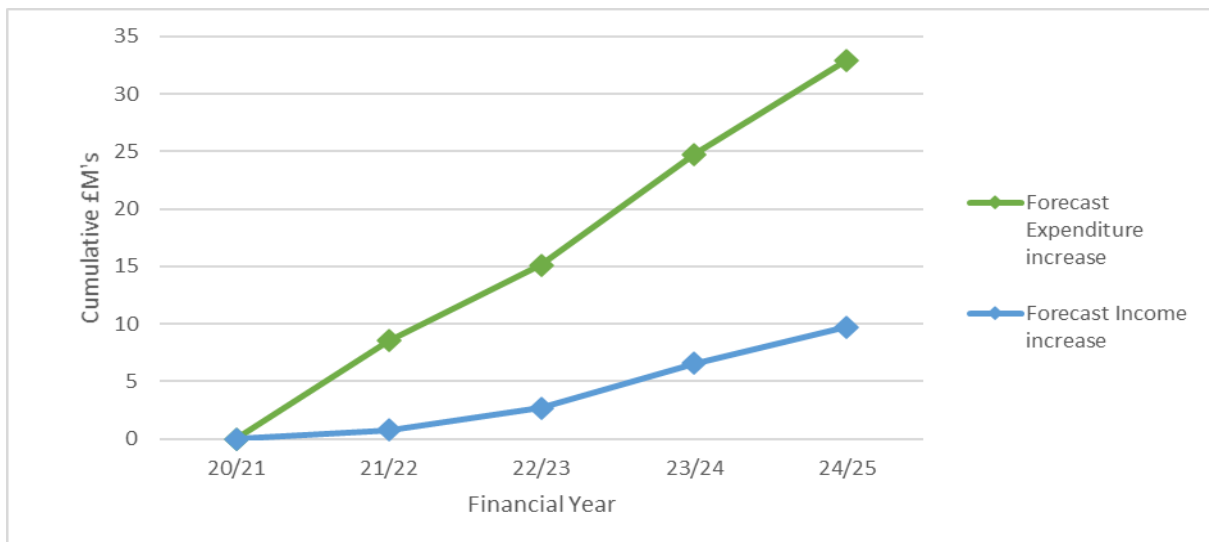
MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2020/21 – 2024/25

The key overriding aim of the Council's MTFS is '**To provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's key strategic outcomes, priorities and sustainable services.**'

This strategy was comprehensively updated in 2019/20 as part of setting the 2020/21 Council's Budget which was approved in February 2020. The agreed budget package also included the development of a new high-level Financial Sustainability Strategy. Both strategies will be refreshed to consider the impact of Covid-19 on the Council's financial resilience and future business planning. In line with most other upper tier local authorities the Council experienced unprecedented levels of demand for key social care services for both children and adults in 2019/20. The total net expenditure budget expenditure for 2019/20 was £122.591M and significant additional investment was made available to support our most vulnerable residents. The Council has increased the level of permanent investment into these key priority services for the future, but it will still be very challenging if the trends in both costs, volume and complexity of demand continues to increase.

The Council is determined to make sure that it continues to invest in priorities that make a real positive difference locally. Delivering better local outcomes by carefully targeting scarce resources to where it matters most and where it has the biggest positive impact has been a key feature of 2019/20.

Prior to the outbreak of Covid-19 the Council was predicting a cumulative budget gap of £23.2M up to the end of 2024/25. The Council's current forecast financial position for each of the next five years is detailed in the following chart which illustrates the estimated funding gap to 2024/25 as reported to Council in February 2020. This assessment will be reviewed and updated again in 2020/21.



The impact of Covid-19 that was highlighted in the June Cabinet report effectively shows that the starting position for 2020/21 could be around a £9.5M gap, rather than the balanced position that is shown in the previous chart. This will need to be addressed as it will also have serious implications across the medium term if not resolved. A comprehensive Period 4 financial performance analysis for 2020/21, together with a Covid-19 impact update will be provided to the Cabinet meeting scheduled for 15 September 2020.

To help address and close the estimated budget gap over the next five years the Council must aim to achieve financial sustainability from local income sources in the future. The Council will also continue to work collaboratively with its partners, increase its focus on the delivery or joint commissioning of services in a targeted way to ensure that those in most need and who will receive the greatest benefit are the recipients of services. Several other initiatives are either already in operation within the Organisation or are planned to be introduced in 2020/21 including: -

- Business as usual monitoring and budget reviews throughout the year
- The full implementation of outcome-based budgeting
- Link business planning and budgeting to focus on service outcomes
- Effective and creative management of service demand
- A review of major contracts
- Full implementation of a new Commissioning Framework
- Getting to know your Business work programme
- Learning from Covid-19 and switching off some service provision or providing services differently
- Income generation and commercial opportunities

The Council also has an ambitious capital investment programme designed to create the right conditions to attract additional private sector investment into the local area and to directly benefit Southend's residents, businesses, and future visitors. The level of planned investment is around £224m over the next five years.

The Council is determined to build on the solid financial foundation that it has worked so hard to create locally. This will be essential to help to navigate the challenges and impact of the current pandemic and continue to effectively manage the level of increasing local demand for priority services. During 2019/20 the Authority demonstrated strong collegiate

leadership and proactive engagement with its residents and communities in order to take as much local control over the future financial destiny of Southend-on-Sea as possible. The Council believes that it is in a strong position to influence, shape and redesign services both locally and regionally to make a real positive difference to the lives of Southenders.

The Council remains in a strong and resilient financial position, despite the risks and challenges that have been identified. This is evidenced and supported by CIPFA's Financial Resilience Index 2019 and a range of other factors. When compared to our statistical neighbours, we believe that from a financial resilience perspective we would currently be placed in the top quartile of all upper tier local authorities in the country. We aim to stay there.

ACKNOWLEDGEMENTS

The production of the Statement of Accounts would not have been possible without the exceptional hard work and dedication of staff across the Council. I would like to express my gratitude to all colleagues, from my team and other services and organisations, who have assisted in the preparation of this document. I would also like to thank them for all their support and expertise during the 2019/20 financial year.

I hope you find this narrative and accompanying statements clear and informative. If you require any further information or wish to make any comment on these Accounts, then please contact us by any of the options listed below.



Joe Chesterton

Executive Director (Finance and Resources)

Date: 12 August 2020

This publication is issued by:

Accountancy Service, Southend-on-Sea Borough Council

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Visit our Website: southend.gov.uk

By Email: accountancyreturns@southend.gov.uk

By Telephone: 01702 215000

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THE FINANCIAL STATEMENTS

The information provided in this publication presents the financial position of Southend-on-Sea Borough Council as at 31 March 2020, and the financial results for the financial year 2019/20. As a large and diverse organisation, these accounts will by their nature be both technical and complex and the purpose of this foreword is to provide a guide to the accounting information and statements that follow and summarise the Council's performance for the year.

Since the introduction of IFRS (International Financial Reporting Standards) for local government accounting in 2010/11, the core financial statements comprise:

- **Comprehensive Income and Expenditure Statement**
- **Movement in Reserves Statement**
- **Balance Sheet**
- **Cash Flow Statement**

The Comprehensive Income and Expenditure 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. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Council. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

The Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that

the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing, and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

These four Statements are then followed by notes providing more detailed information of various elements within the statements.

The main Statements and their notes are supplemented by three further sections:

The Housing Revenue Account (HRA) reports separately on the Council's landlord activities, which are consolidated into the main accounts. Detailed notes follow these statements to expand on the information provided.

The Collection Fund reports separately on the collection and distribution of non-domestic rates and Council tax.

Group Accounts consolidate the Council's main accounts with those of its Subsidiary and Associated Companies, and Charitable Trusts.

**STATEMENT OF
RESPONSIBILITY FOR THE
STATEMENT OF ACCOUNTS**

STATEMENT OF RESPONSIBILITY FOR THE STATEMENT OF ACCOUNTS

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 Executive Director (Finance and Resources).
- Manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

THE EXECUTIVE DIRECTOR (FINANCE AND RESOURCES)' RESPONSIBILITIES

The Executive Director (Finance and Resources) 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 Executive Director (Finance and Resources) has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the local authority Code.

The Executive Director (Finance and Resources) has also:

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

EXECUTIVE DIRECTOR (FINANCE & RESOURCES)' CERTIFICATE

I certify that these accounts present a true and fair view of the financial position of the Council at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

Joe Chesterton, CPFA
Executive Director (Finance and Resources)
12 August 2020

APPROVAL OF THE STATEMENT OF ACCOUNTS

In accordance with the requirements of Regulation 9 of the Accounts and Audit Regulations 2015, I confirm that the Statement of Accounts was approved by resolution of the Audit Committee of Southend-on-Sea Borough Council on 12 August 2020.

Councillor Paul Collins
Chair of Audit Committee
12 August 2020

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SOUTHEND-
ON-SEA BOROUGH COUNCIL**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Southend-on-Sea Borough Council ('the Authority') and its subsidiaries ('the group'):

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's and the Authority's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We have audited the financial statements which comprise:

- the group and Authority Comprehensive Income and Expenditure Statements;
- the group and Authority Balance Sheets;
- the group and Authority Movement in Reserves Statements;
- the group and Authority Cash Flow Statements;
- the Housing Revenue Account Income and Expenditure Statement;
- the Movement on the Housing Revenue Account Balance Statement;
- the Collection Fund; and
- the related notes to the financial statements including a summary of significant accounting policies.

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 (2019/20).

Basis for opinion

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

We are independent of the group and Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Executive Director (Finance and Resources)' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Executive Director (Finance and Resources) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Executive Director (Finance and Resources) is responsible for the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Chief Financial Officer's responsibilities

As explained more fully in the Executive Director (Finance and Resources)' responsibilities statement, the Executive Director (Finance and Resources) is responsible for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and for such internal control as Executive Director (Finance and Resources) 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 Executive Director (Finance and Resources) is responsible for

assessing the group's and 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 on the assumption that the functions of the group and the Authority will continue in operational existence for the foreseeable future.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Southend-on-Sea Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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.

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 report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017 as to whether Southend-on-Sea Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Southend-on-Sea Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made 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;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Other matter

We draw attention to note 4, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's property portfolio. As noted by the Council's external valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter

CERTIFICATE OF COMPLETION OF THE AUDIT

We certify that we have completed the audit of the accounts of Southend-on-Sea Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

USE OF OUR REPORT

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's 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 members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Craig Wisdom, FCA (Appointed auditor)
For and on behalf of Deloitte LLP
St Albans, United Kingdom

Deloitte LLP is a limited liability partnership registered in England and Wales (with registered number OC303675)

MAIN FINANCIAL STATEMENTS

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2018/19 Restated			2019/20			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Notes	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
86,205	(74,758)	11,447	Leader	83,451	(68,544)	14,907
29,501	(14,170)	15,331	Deputy Leader	29,137	(16,552)	12,585
18,531	(6,229)	12,302	Business, Culture and Tourism	16,584	(5,455)	11,129
117,658	(67,102)	50,556	Children and Learning	116,865	(71,227)	45,638
7,181	(5,094)	2,087	Community Safety and Customer Contact	9,435	(5,205)	4,230
22,536	(2,339)	20,197	Environment and Planning	22,472	(2,966)	19,506
78,834	(37,366)	41,468	Health and Adult Social Care	83,894	(38,636)	45,258
360,446	(207,058)	153,388	Net Cost of General Fund Services	361,838	(208,585)	153,253
19,447	(28,530)	(9,083)	Local Authority Housing (HRA)	21,363	(27,554)	(6,191)
19,447	(28,530)	(9,083)	Net Cost of Housing Revenue Account Services	21,363	(27,554)	(6,191)
379,893	(235,588)	144,305	Cost of Services	383,201	(236,139)	147,062
32,747	0	32,747	Other Operating Income and Expenditure	10	1,665	(3,139)
22,561	(10,452)	12,109	Financing and Investment Income and Expenditure	11	21,924	(8,321)
0	(142,007)	(142,007)	Taxation and Non-Specific Grant Income	12	0	(153,648)
435,201	(388,047)	47,154	Deficit on Provision of Services	406,790	(401,247)	5,543
<i>Items that will not be reclassified to the (Surplus) on the Provision of Services</i>						
(Surplus)/Deficit on Revaluation of Heritage and						
(26,068) Property, Plant and Equipment Assets						
(31,792) Re-measurement of Net Pension Liability						
(57,860) Other Comprehensive Income and Expenditure						(9,105)
(10,706) Total Comprehensive Income and Expenditure						(3,562)

MOVEMENT IN RESERVES STATEMENT

	Note	Revenue Reserves			Capital Reserves			£000 Total Usable Reserves	Unusable Reserves								£000 Unusable Reserves	£000 Total Authority Reserves
		£000 General Fund Balance	£000 Housing Revenue Account	£000 Earmarked Reserves	£000 Capital Receipts Reserve	£000 Major Repairs Reserve	£000 Capital Grants Unapplied		£000 Revaluation Reserve	£000 Available for Sale Financial Instruments	£000 Financial Instrument Revaluation Reserve	£000 Pensions Reserve	£000 Capital Adjustment Account	£000 Deferred Capital Receipts	£000 Collection Fund Adjustment Account	£000 Accumulated Absences Account		
Balance at 31 March 2018		11,000	3,502	93,914	13,365	6,989	11,986	140,756	272,586	8	0	(168,922)	236,147	3,500	7,545	(1,340)	349,524	490,280
Opening adjustment to reserves following reclassification of financial assets under IFRS9		8	0	0	0	0	0	8	0	(8)	0	0	0	0	0	0	(8)	0
Movement in Reserves during 2018/19																		
Surplus (Deficit) on the Provision of Services		(54,099)	6,945	0	0	0	0	(47,154)	0	0	0	0	0	0	0	0	0	(47,154)
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	26,068	0	0	31,792	0	0	0	0	57,860	57,860
Total Comprehensive Income and Expenditure		(54,099)	6,945	0	0	0	0	(47,154)	26,068	0	0	31,792	0	0	0	0	57,860	10,706
Adjustments between accounting basis and funding basis under regulations	19	62,728	(2,813)	0	364	373	636	61,288	(21,562)	0	454	(14,676)	(24,767)	(2,000)	858	405	(61,288)	0
Net Increase / Decrease before Transfers to earmarked reserves		8,629	4,132	0	364	373	636	14,134	4,506	0	454	17,116	(24,767)	(2,000)	858	405	(3,428)	10,706
Transfers to / (from) Earmarked Reserves	20	(8,629)	(4,132)	12,761	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase / Decrease in 2018/19		0	0	12,761	364	373	636	14,134	4,506	0	454	17,116	(24,767)	(2,000)	858	405	(3,428)	10,706
Balance at 31 March 2019		11,000	3,502	106,683	13,729	7,362	12,622	154,898	277,092	0	454	(151,806)	211,380	1,500	8,403	(935)	346,088	500,986
Movement in Reserves during 2019/20																		
Surplus (Deficit) on the Provision of Services		(9,581)	4,038	0	0	0	0	(5,543)	0	0	0	0	0	0	0	0	0	(5,543)
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	(12,341)	0	0	21,446	0	0	0	0	9,105	9,105
Total Comprehensive Income and Expenditure		(9,581)	4,038	0	0	0	0	(5,543)	(12,341)	0	0	21,446	0	0	0	0	9,105	3,562
Adjustments between accounting basis and funding basis under regulations	19	10,770	(4,506)	0	2,746	777	3,016	12,803	(5,414)	0	(1,292)	(14,162)	9,043	750	(1,632)	(96)	(12,803)	0
Net Increase / Decrease before Transfers to earmarked reserves		1,189	(468)	0	2,746	777	3,016	7,260	(17,755)	0	(1,292)	7,284	9,043	750	(1,632)	(96)	(3,698)	3,562
Transfers to / (from) Earmarked Reserves	20	(1,189)	468	721	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase / Decrease in 2019/20		0	0	721	2,746	777	3,016	7,260	(17,755)	0	(1,292)	7,284	9,043	750	(1,632)	(96)	(3,698)	3,562
Balance at 31 March 2020		11,000	3,502	107,404	16,475	8,139	15,638	162,158	259,337	0	(838)	(144,522)	220,423	2,250	6,771	(1,031)	342,390	504,548

BALANCE SHEET

31 March 2019 £000		31 March 2020 £000
	Notes	
772,362 Property, Plant & Equipment	21	784,229
37,743 Heritage Assets	23	28,908
41,326 Investment Property	24	41,004
8,205 Intangible Assets	22	8,801
28,428 Long Term Investments	25	27,624
2,538 Long Term Debtors	25	3,101
890,602 Long Term Assets		893,667
20,757 Short term Investments	25	55,490
9 Inventories		7
36,743 Short Term Debtors	26	47,072
46,361 Cash and Cash Equivalents	25, 27	42,785
103,870 Current Assets		145,354
(8,856) Short Term Borrowings	25	(1,514)
(44,080) Short Term Creditors	28	(51,187)
(4,439) Provisions	29	(5,386)
(57,375) Current Liabilities		(58,087)
(4,061) Long Term Creditors		(2,298)
(268,962) Long Term Borrowing	25	(318,859)
(151,806) Other Long Term Liabilities - Pensions	37	(144,522)
(11,282) Other Long Term Liabilities - Other	25	(10,707)
(436,111) Long Term Liabilities		(476,386)
500,986 Net Assets		504,548
154,898 Usable Reserves	30	162,158
346,088 Unusable Reserves	31	342,390
500,986 Total Reserves		504,548

CASH FLOW STATEMENT

2018/19 £000	Notes	2019/20 £000
47,154 Net (Surplus) or Deficit on the Provision of Services		5,543
Adjustments to Net Surplus or Deficit on the Provision of Services for non- (72,178) cash Movements	40	(38,851)
Adjustments for items included in the Net Surplus or Deficit on the Provision 24,585 of Services that are Investing and Financing Activities	41	37,972
(439) Net cash outflows from Operating Activities		4,664
12,887 Investing Activities	42	41,620
(32,292) Financing Activities	43	(42,708)
(19,844) Net (Increase)/Decrease in Cash and Cash Equivalents		3,576
(26,517) Cash and Cash Equivalents at the beginning of the Reporting Period		(46,361)
(46,361) Cash and Cash Equivalents at the end of the Reporting Period	27	(42,785)

NOTES TO THE ACCOUNTS

NOTES CONTENTS LIST

Note 1. Accounting Policies	42
Note 2. Accounting Standards that have been Issued but have not yet been Adopted	52
Note 3. Critical Judgements in applying Accounting Policies	52
Note 4. Assumptions made about the future and other major sources of estimation uncertainty	53
Note 5. Events after the Balance Sheet date	54
Note 6. Expenditure and Funding Analysis	54
Note 7. Expenditure and Income Analysed by Nature	57
Note 8. Segmental Income	58
Note 9. Material Items of Income and Expense	58
Note 10. Other Operating Income and Expenditure	59
Note 11. Financing and Investment Income and Expenditure	59
Note 12. Taxation and Non Specific Grant Incomes	59
Note 13. Pooled Budgets	60
Note 14. Members' Allowances	60
Note 15. Officers' Remuneration	61
Note 16. External Audit Costs	64
Note 17. Dedicated Schools Grant	64
Note 18. Grant Income	65
Note 19. Adjustments between Accounting Basis and Funding Basis under Regulations	66
Note 20. Transfers to / from Earmarked Reserves	71
Note 21. Property, Plant and Equipment	72
Note 22. Intangible Assets	75
Note 23. Heritage Assets	76
Note 24. Investment Properties	78
Note 25. Financial Instruments	79
Note 26. Short Term Debtors	83
Note 27. Cash and Cash Equivalents	83
Note 28. Short Term Creditors	83
Note 29. Provisions	84
Note 30. Usable Reserves	84
Note 31. Unusable Reserves	84
Note 32. Capital Expenditure and Capital Financing	87
Note 33. Leases	89
Note 34. Downward Revaluation and Impairment Losses	89
Note 35. Termination Benefits	89
Note 36. Pension Schemes Accounted for as Defined Contribution Schemes	89
Note 37. Defined Benefit Pension Schemes	90
Note 38. Nature and Extent of Risks Arising from Financial Instruments	94
Note 39. Cash Flow Statement - Interest Paid and Received	98
Note 40. Cash Flow Statement – Non-Cash Movements	98
Note 41. Cash Flow Statement - Adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	99
Note 42. Cash Flow Statement - Investing Activities	99
Note 43. Cash Flow Statement - Financing Activities	99
Note 44. Related Parties	100
Note 45. Contingent Liabilities	101

Note 1. Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which requires the Accounts to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS), and statutory guidance issued under section 12 of the 2003 Act.

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.

Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
 - Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
 - Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
 - Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
 - Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
 - Where it does not materially affect the accounts, and a full year's income and expenditure is recorded, an accrual need not be raised.
- Accruals are not made for items under £5,000, except where in the opinion of the Executive Director (Finance and Resources) the absence of an accrual for a lesser amount would lead to a misrepresentation of the cost of a service.

Cash and Cash Equivalents

Cash and Cash Equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

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

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

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

There are no changes to accounting policies in 2019/20 which require restatement of prior periods.

Charges to Revenue for Non-Current Assets

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

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

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

Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting Council Tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors, and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

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

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

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

Employee Benefits

Post Employment Benefits

Different groups of employees of the Council are members of three separate pension schemes:

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

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

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children and Learning line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year and the Healthy Communities and Wellbeing line is charged with the employer's contributions payable to the NHS Pensions Scheme.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Essex Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.35%. The discount rate is the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30-year point). This is consistent with the approach used at the previous accounting date.
- The assets of Essex Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.

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

- Service cost comprising:
 - current service cost – the increase in liabilities because of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement
 - net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with

assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- contributions paid to the Essex Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions 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.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

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 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.

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 investments in property funds, short dated bond funds, enhanced cash funds and money market funds 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:

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

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

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

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

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount

of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

Financial Assets

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

- amortised cost
- fair value through profit or loss
- fair value through other comprehensive income.

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 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 and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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. The expected credit loss model also applies to lease receivables and contract

assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. 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 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 of 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 prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

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.

Foreign currency translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

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 or contributions will be received.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Heritage Assets

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets).

The Council's Heritage Assets consist of historic seaside assets, heritage land and buildings, antiques/collectables, museum collections and memorials/statues. These assets are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of the heritage. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant, and equipment (PPE). However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Council's heritage assets are accounted for as follows.

Historic Seaside Assets

- The historic seaside assets comprise the pier, the cliff lift, and the cliff bandstand. These assets are considered to be part of the fabric of the town as an historic seaside resort and are treated in

accordance with the Council's policies for PPE assets.

Heritage Land and Buildings

- These consist of the official mayor's residence, Porters, and Southchurch Hall, a grade I listed medieval manor house. These assets are considered to be part of the heritage of the town and are intended to be preserved for future generations because of their cultural, environmental, or historical associations. These are treated in accordance with the Council's policies for PPE assets.

Antiques / Collectables

- These comprise furniture and furnishings, panelling, carpets, textiles, clocks, silver, plated wares and gold, works of art, ceramics and glass, books, pictures and presentation and commemorative wares. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.
- The collection is relatively static, and acquisitions and donations are rare. Where they do occur, acquisitions are initially recognised at cost and donations are recognised at valuation.

Museum Collections

- The Council considers that obtaining valuations for the items that are exhibited within the borough's museums would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values. The Council does not recognise these exhibits on the Balance Sheet.
- The Saxon King artefacts form part of the Council's heritage assets and have been valued by a specialist in archaeology. These items are reported in the Balance Sheet at this valuation which is based on sale prices of comparable material and museum valuations for loan purposes, where relevant. These assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Memorials and Statues

- These are a statue of Queen Victoria and a War Memorial. The Council does not consider that reliable cost or valuation information can be obtained for the items due to the lack of comparable market values. Consequently, the Council does not recognise these assets on the Balance Sheet.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see "Property, Plant and Equipment" in this summary of significant accounting policies. The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see "Revenue Expenditure Funded from Capital under Statute" and "Property, Plant and Equipment" in this summary of significant accounting policies).

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or

abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and 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 any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Interests in Companies and Other Entities

The Council has material interests in wholly owned companies, other entities and trusts that have the nature of subsidiaries and joint ventures which require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

Joint operations

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

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

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.

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

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and Support Services

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

Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. For schools, capitalisation takes place for community and foundation schools only. Capital expenditure on voluntary aided schools or academies is treated as Revenue Expenditure Funded from Capital Under Statute.

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

The Council does not generally capitalise borrowing costs incurred whilst assets are under construction, with the exception of major invest to save schemes where the financing is structured to allow the initial roll up of revenue costs prior to savings or income streams being realised.

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

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

- infrastructure, community assets, vehicles, plant, furniture and equipment, and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at current value are revalued or have indexation adjustments applied sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum are revalued every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value 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 line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the 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 line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment 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) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture, and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years, or other useful life agreed as reasonable

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

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.

Disposals

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

gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are 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.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance 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, financial instruments, local taxation, retirement, and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

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 and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

Schools

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves, and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Note 2. Accounting Standards that have been Issued but have not yet been Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2020/21 Code:

- a) amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- b) Annual Improvements to IFRS Standards 2015-2017 Cycle
- c) amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

The Code requires implementation from 1 April 2020. It is not anticipated that these accounting changes will have any material impact on the Council's Statement of Accounts.

IFRS 16 Leases – This standard has been issued. The implementation has been deferred until the 2021/22 Code so is required for accounting periods beginning on or after 1 January 2021, but not yet adopted by the Code: early adoption is not therefore permitted. The Council is continuing to assess the potential impact on application of the standard. The implications are therefore not yet known and are therefore not quantifiable.

Note 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 made in the Statement of Accounts are:

- There remains a high degree of uncertainty over future levels of funding for local government, particularly in light of the Covid-19 pandemic. No clarity has yet been provided over the content or timing of the next Comprehensive Spending Review. Most local authorities will be experiencing increases in service cost pressures, reductions in income and an increasing risk of higher potential bad debts. This is compounded by the added difficulty of delivering recovery savings plans in a very different financial landscape and challenging operating environment. The depth and duration of the current economic recession and the outcome of the Brexit withdrawal agreement negotiations are currently also unknown. Part of our initial response to the pandemic included a phased programme of temporary closure, part closure and re-configuration of Council services on public health and safety grounds from 18 March 2020. Many key front-line operations have continued to provide a near normal service where possible and safe to do so or adapted to meet the needs of local residents and businesses in different ways. Given the temporary nature of the closures and the phased relaxation of the lockdown measures now taking place, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council should be impaired as a result of any permanent need to close facilities or through alternative levels of service provision. An integral part of the Council's recovery and restoration plans is to learn, reflect and evaluate the overall Covid-19 response and experience to inform the design of future service delivery arrangements as appropriate.
- All community schools are owned by the Council and the land and buildings used by the schools are included on the Council's Balance Sheet. For the foundation schools the control of the land and buildings is vested with the Governing Body and so they are included on the Council's Balance Sheet. For the Voluntary Aided schools the Diocese owns the title to the assets, the schools use the assets under "mere" licences which pass no interest to the school and the Diocese has not ceded control of the assets to the school, so the land and buildings used by the schools are not included on the Council's Balance Sheet. Academies are not considered to be maintained schools in the Council's control so the land and building assets are not owned by the Council and not included on the Council's Balance Sheet.

Note 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 considering 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 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions' liability of changes in individual assumptions can be measured. As examples, an increase in life expectancy of retired employees of 1 year would increase the net pension liability by £24.1M, and an increase in the discount rate of 0.1% would decrease the net pension liability by £11.1M. The full effects on the net pensions' liability are fully disclosed in note 37 to the Accounts.
Property, Plant and Equipment Revaluations	The uncertainties arise because of the estimations used by the valuer. The basis of these estimations is set out in note 21 but different valuers could arrive at different results whilst still using the same basis for those estimations.	The actual value of the asset only becomes apparent when it is sold. The accounting treatment is set out in the disposals paragraph of the Property, Plant and Equipment section of Note 1.
The response to Covid-19	<p>This presented an unprecedented set of circumstances on which to base valuation judgements at the balance sheet date.</p> <p>Asset valuations at 31 March 2020 are included on the basis of 'material valuation uncertainty' so a higher degree of caution should be attached to these valuations. However, they have been based on the best information available and are therefore a valid basis of valuation for this Statement of Accounts.</p> <p>These include Property, Plant and Equipment, Investment Property valuations and indexation adjustments because of the market review undertaken by the external valuers.</p> <p>These also apply to financial assets measured at Fair Value Through Profit and Loss where the property fund managers have inserted a Material Uncertainty Clause into the March 2020 valuation reports.</p>	<p>The valuation of Investment Properties is disclosed in note 24. It is still too early to form a view on how rents and values will be impacted, particularly with fewer properties being brought to the market on which to base that judgement.</p> <p>Note 21 includes the effect of the indexation adjustments on Property Plant and Equipment assets. Relevant data from the Building Cost Information Service of RICS (BCIS) is subject to uncertainty. It is still too early to form a view, but forecasts are subject to change as the knock on effect on the construction market becomes clearer.</p> <p>Financial Instruments measured at Fair Value Through Profit and Loss are disclosed in note 25. As time progresses if the uncertainty reduces more reliance can be placed on the prevailing quoted unit price and the Material Uncertainty Clauses will be removed from future valuations.</p>

Note 5. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Executive Director (Finance and Resources) on 24 June 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Although the Covid-19 pandemic was prevailing at the balance sheet date and the full extent of the UK Government's original lockdown measures were in place by 23 March 2020, most of the impacts will occur in 2020/21 and later years. It is still too early to assess the full impact that Covid-19 will have on the financial position of the Council, an initial local financial assessment of Covid-19 was presented to a special Cabinet meeting on 9 June 2020 and is available on our **website**¹.

This report included the estimated financial impact against the Council's approved General Fund Service Budget for 2020/21. The assessment was based on a complex series of assumptions and the best information available at the time of writing the report. The key concern was highlighted as the estimated £5.2M unfunded pressure to the end of July 2020, which could increase to around £9.5M by the end of 2020/21. Members of the Cabinet agreed at the meeting to receive regular updates. These reports will include a summary of further announcements from central Government, any changes in assumptions and strategy and a revised assessment of the local financial impact for the Council of the easing of the lockdown measures.

NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Note 6. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, 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 Portfolios. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

¹ <https://democracy.southend.gov.uk/documents/s39052/Covid-19%20Finance%20Cabinet%20Report%209%20June.pdf>

Net Expenditure Chargeable to the General Fund and HRA Balances	2018/19 Restated	Net Expenditure in the Comprehensive Income and Expenditure Statement	Notes	2019/20		
	Adjustments between the Funding and Accounting Basis			Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
7,725	3,722	11,447	Leader	7,738	7,169	14,907
(182)	15,513	15,331	Deputy Leader	(1,533)	14,118	12,585
7,578	4,724	12,302	Business Culture and Tourism	7,071	4,058	11,129
30,119	20,437	50,556	Children and Learning	31,378	14,260	45,638
263	1,824	2,087	Community Safety and Customer Contact	1,875	2,355	4,230
18,580	1,617	20,197	Environment and Planning	19,244	262	19,506
38,973	2,495	41,468	Health and Adult Social Care	41,165	4,093	45,258
103,056	50,332	153,388	Net Cost of General Fund Services	106,938	46,315	153,253
(11,052)	1,969	(9,083)	Local Authority Housing (HRA)	(6,634)	443	(6,191)
(11,052)	1,969	(9,083)	Net Cost of Housing Revenue Account Services	(6,634)	443	(6,191)
92,004	52,301	144,305	Net Cost of Services	100,304	46,758	147,062
34,418	10,438	44,856	Other Income and Expenditure	32,684	(20,555)	12,129
(126,422)	(15,585)	(142,007)	Taxation and non-specific Grant Income	(132,988)	(20,660)	(153,648)
(92,004)	(5,147)	(97,151)	Other Income and Expenditure	(100,304)	(41,215)	(141,519)
0	47,154	47,154	Deficit	0	5,543	5,543
14,502			Opening General Fund and HRA Balance	14,502		
0			Surplus or (Deficit) on General Fund and HRA Balance in Year	0		
14,502			Closing General Fund and HRA Balance	14,502		

The 2018/19 comparative has been restated to reflect the changes made to portfolio structure of the Council in 2019/20. The adjustments required to convert the accounts from the funding basis to the comprehensive income and expenditure statement are set out below.

2018/19 Restated				2019/20				
IAS 19 Pension Adjustments	Adjustments for Capital Purposes	Other Differences	Total Adjustments between the Funding and Accounting Basis		IAS 19 Pension Adjustments	Adjustments for Capital Purposes	Other Differences	Total Adjustments between the Funding and Accounting Basis
£000	£000	£000	£000		£000	£000	£000	£000
a	b	c		Notes	a	b	c	
2,778	1,097	(153)	3,722	Leader	1,895	3,876	1,398	7,169
482	12,580	2,451	15,513	Deputy Leader	411	11,004	2,703	14,118
852	3,872	0	4,724	Business Culture and Tourism	971	3,087	0	4,058
2,733	17,865	(161)	20,437	Children and Learning	3,175	10,849	236	14,260
484	1,340	0	1,824	Community Safety and Customer Contact	561	1,794	0	2,355
1,040	2,018	(1,441)	1,617	Environment and Planning	1,193	1,149	(2,080)	262
2,160	336	(1)	2,495	Health and Adult Social Care	2,412	1,681	0	4,093
10,529	39,108	695	50,332	Net Cost of General Fund Services	10,618	33,440	2,257	46,315
0	2,002	(33)	1,969	Local Authority Housing (HRA)	0	279	164	443
0	2,002	(33)	1,969	Net Cost of Housing Revenue Account Services	0	279	164	443
10,529	41,110	662	52,301	Net Cost of Services	10,618	33,719	2,421	46,758
4,147	7,066	(775)	10,438	Other Income and Expenditure	3,543	(20,387)	(3,711)	(20,555)
0	(11,770)	(3,815)	(15,585)	Taxation and non-specific Grant Income	0	(17,100)	(3,560)	(20,660)
14,676	36,406	(3,928)	47,154	(Surplus) or Deficit	14,161	(3,768)	(4,850)	5,543

a IAS19 Pension Adjustments

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

For **services** this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.

For **financing and investment income and expenditure** — the net interest on the defined benefit liability is charged to the CIES.

b Adjustments for Capital Purposes

Adjustments for capital purposes – for **services** this column adds in depreciation, impairment and revaluation gains and losses in the services line and consolidates out interest payments and income for the HRA, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts 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. 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.

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 column adjusts for the accrued value of holiday entitlements not taken as at the balance sheet date, consolidates in the in-year activity of maintained schools and moves the value of traded services and investment properties to **financing and investment income and expenditure**.

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Note 7. Expenditure and Income Analysed by Nature

The Council's expenditure and income as set out in the Comprehensive Income and Expenditure Statement is analysed as follows.

	Notes	2019/20 £000	2018/19 £000
Income			
Fees, Charges and other Service Income	8	(76,341)	(74,888)
Interest and Investment Income	11	(1,154)	(2,493)
Gains on Revaluation		(3,017)	(5,580)
Income from Council Tax	12	(82,977)	(79,117)
Income from Non-domestic Rates	12	(20,352)	(22,107)
Government Grants and Contributions	18	(213,930)	(203,862)
Gains on the disposal of Assets	10, 11	(3,476)	0
Total Income		(401,247)	(388,047)
Expenditure			
Employee Benefits Expenses		83,114	74,186
Other Service Expenses		261,614	261,954
Support Service Recharges (net)		(465)	(585)
Depreciation, Amortisation and Impairment		44,782	51,522
Interest Payments	11	12,537	11,230
Pensions Interest and Expected Return	11	3,543	4,147
Precepts and Levies	10	999	974
Payments to Housing Capital Receipts Pool	10	666	571
Losses on the disposal of Assets	10	0	31,202
Total Expenditure		406,790	435,201
Deficit on the Provision of Services		5,543	47,154

Note 8. Segmental Income

Fees, charges, and other Income generated on a portfolio service basis is analysed as follows.

	2019/20 £000	2018/19 £000 Restated
Leader	(4,600)	(5,701)
Deputy Leader	(11,634)	(10,547)
Business Culture and Tourism	(2,424)	(2,462)
Children and Learning	(4,723)	(3,754)
Community Safety and Customer Contact	(5,069)	(4,908)
Environment and Planning	(1,967)	(1,879)
Health and Adult Social Care	(14,701)	(14,210)
Total Income from General Fund Services	(45,118)	(43,461)
Local Authority Housing (HRA)	(27,180)	(27,900)
Total Income from Housing Revenue Account Services	(27,180)	(27,900)
Total Income from Services	(72,298)	(71,361)
Other Income and Expenditure	(4,043)	(3,527)
Total Income	(76,341)	(74,888)

Note 9. Material Items of Income and Expense

In relation to 2019/20:

- The Deficit on Revaluation of non-current assets of £12.341M consists of £4.659M and £0.064M of revaluation gains from the increase in the value of Property Plant and Equipment and Heritage Assets respectively and £6.284M and £10.780M of accumulated revaluation gains lost as a result of downwards revaluation and impairment losses to Property Plant and Equipment and Heritage Assets respectively.
- The performance of the Essex Pension Fund during 2019/20 was better than anticipated, with a decrease in the underlying value of scheme assets being more than offset by a reduction in the present value of scheme liabilities. This has led to an actuarial gain passing through the Comprehensive Income and Expenditure Statement of £21.446M.

In relation to 2018/19:

- The Surplus on Revaluation of non-current assets of £26.068M consists of £30.827M of revaluation gains from the increase in the value of Property Plant and Equipment and £4.759M of accumulated revaluation gains lost as a result of downwards revaluation and impairment losses.
- During the year six schools transferred to academy status. As a result, the carrying amount of the assets of £32.803M has been written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.
- The performance of the Essex Pension Fund during 2018/19 was better than anticipated, with an increase in the underlying value of scheme assets, and a benign movement in scheme liabilities. This has led to an actuarial gain passing through the Comprehensive Income and Expenditure Statement of £31.792M.

Note 10. Other Operating Income and Expenditure

	2019/20 £000	2018/19 £000
Leigh Town Council Precept and Grant	426	419
Levies	573	555
Payments to the Government Housing Capital Receipts Pool	666	571
(Gains)/Losses on the Disposal of Non-current Assets *	(3,139)	31,202
Total	(1,474)	32,747

* In 2018/19 £32.803M of the losses were due to six schools that transferred to academy status. No schools transferred to academy status in 2019/20.

Note 11. Financing and Investment Income and Expenditure

	2019/20 £000	2018/19 £000
Interest Payable and Similar Charges	12,537	11,431
Interest on net pension liability	3,543	4,147
Interest Receivable and Similar Income	(1,154)	(2,293)
Income and Expenditure in relation to Investment Properties and changes in their Fair Value	(2,867)	(2,417)
(Gains)/Losses on the Disposal of Investment Properties	(337)	0
Deficit on Traded Services	2,081	1,442
Other	(200)	(201)
Total	13,603	12,109

See also note 24 for more information on Investment Properties.

Note 12. Taxation and Non Specific Grant Incomes

	2019/20 £000	2018/19 £000
Council Tax Income	82,977	79,117
Retained Business Rates	20,352	22,107
Non-Ringfenced Government Grants	33,219	29,013
Capital Grants and Contributions	17,100	11,770
Total	153,648	142,007

Note 13. Pooled Budgets

The Better Care Fund, an agreement between Southend-on-Sea Borough Council and NHS Southend Clinical Commissioning Group, came into place for the 2015/16 financial year. The purpose of the fund is to encourage the integration of Health and Adult Social Care commissioning. The agreement is made in accordance with Section 75 of the National Health Service Act 2006 and any surplus or deficit generated will be the responsibility of the respective partner to whom it is attributable. The pooled budget is hosted by Southend-on-Sea Borough Council on behalf of the two partners in line with the agreement.

The Contributions into the pool are the minimum requirements under rules set by the Department of Health and the Ministry of Housing, Communities and Local Government. The expenditure by each of the partners is negotiated between them each year and set within the Section 75 agreement referred to above.

	2019/20 £000	2018/19 £000
Funding provided to the pooled budget		
Southend-on-Sea Borough Council	(9,085)	(7,051)
NHS Southend Clinical Commissioning Group	(12,876)	(12,382)
Total Funding	(21,961)	(19,433)
Expenditure met from the pooled budget		
Southend-on-Sea Borough Council	14,969	12,879
NHS Southend Clinical Commissioning Group	6,887	6,492
Joint Pooled Fund	106	62
Total Expenditure	21,961	19,433
Net Pooled Budget	0	0
Southend-on-Sea Borough Council share	0	0

Note 14. Members' Allowances

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

	2019/20 £000	2018/19 £000
Basic Allowances	469	458
Special Allowances	193	201
Travel & Subsistence	1	2
Total Members Allowances	663	661

A full list of the Members' allowances, including their travel and subsistence, is published in the Additional Financial Information Section and on the Council's website.

Note 15. Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

2019/20						
Post holder information (Post title)	Salary (including fees & Allowances) £	Compensation for loss of employment £	Benefits in Kind (e.g. Car Allowance) £	Total Remuneration excluding pension contributions 2019/20 £	Pension contribution £	Total Remuneration including pension contributions 2019/20 £
Chief Executive - Alison Griffin	159,120	0	0	159,120	26,414	185,534
Deputy Chief Executives						
Andrew Lewis	135,252	0	0	135,252	22,452	157,704
Simon Leftley to 28th January 2020 <i>annualised</i>	111,969	0	0	111,969	166,381	278,350 305,064
Executive Directors						
Adults and Communities from 7th January 2020 <i>annualised</i>	28,065	0	0	28,065	4,659	32,724 140,517
Children and Public Health from 9th January 2020 <i>annualised</i>	27,419	0	0	27,419	4,552	31,971 140,595
Neighbourhoods and Environment from 11th November 2019 <i>annualised</i>	46,667	0	0	46,667	7,747	54,414 139,865
Legal & Democratic Services <i>annualised as reduced hours</i>	84,864	0	0	84,864	14,087	98,951 123,689
Finance & Resources	106,080	0	0	106,080	17,557	123,637
Transformation	106,248	0	0	106,248	17,637	123,885
Directors						
Public Health to 24th October 2019 <i>annualised</i>	71,449	0	0	71,449	5,920	77,369 136,424
Public Health from 2nd March 2020 <i>annualised</i>	8,468	0	0	8,468	842	9,310 113,271
Integration & Partnerships	99,845	0	0	99,845	16,574	116,419
Communities from 1st January 2020 <i>annualised</i>	23,086	0	0	23,086	3,832	26,918 107,970
Housing Development from 23rd September 2019 <i>annualised</i>	47,851	0	0	47,851	8,005	55,856 106,741
Children's Services	92,345	0	0	92,345	15,329	107,674
Learning	92,345	0	0	92,345	15,329	107,674
Public Protection	92,345	0	0	92,345	15,329	107,674
Planning and Transport	92,345	0	0	92,345	15,329	107,674
Culture and Tourism	92,345	0	0	92,345	15,329	107,674
Regeneration and Growth	92,345	0	0	92,345	15,329	107,674
Property and Commercial from 23rd September 2019 <i>annualised</i>	43,176	0	0	43,176	7,205	50,381 96,277
Digital Futures to 8th May 2019 <i>annualised</i>	9,490	0	0	9,490	61,485	70,975 166,199

2018/19

Post holder information (Post title)	Salary (Including fees & Allowances) £	Compensation for loss of employment £	Benefits in Kind (e.g. Car Allowance) £	Total Remuneration excluding pension contributions 2019/20 £	Pension contribution £	Total Remuneration including pension contributions 2019/20 £
Chief Executive - Alison Griffin	151,450	0	0	151,450	25,141	176,591
Deputy Chief Executives						
People - Simon Leftley	130,831	0	0	130,831	21,718	152,549
Place - Andrew Lewis	126,906	0	0	126,906	21,066	147,972
Strategic Directors						
Legal & Democratic Services <i>annualised as reduced hours</i>	81,127	0	0	81,127	13,467	94,594 118,243
Finance & Resources	101,187	0	0	101,187	15,850	117,037
Transformation	97,262	0	0	97,262	16,145	113,407
Directors						
Public Health	92,135	0	31	92,166	13,249	105,415
Strategy & Commissioning	101,774	0	0	101,774	16,894	118,668
Adult Services & Housing to 3 February 2019 <i>annualised</i>	78,814	0	0	78,814	13,083	91,897 108,551
Adult Services from 4 February 2019 <i>annualised</i>	6,534	0	0	6,534	1,085	7,619 91,427
Housing from 8 January 2019 <i>annualised</i>	13,069	0	0	13,069	2,169	15,238 91,427
Children's Services	90,524	0	0	90,524	15,027	105,551
Learning	90,534	0	0	90,534	15,027	105,561
Public Protection	90,524	0	0	90,524	15,027	105,551
Planning & Transport	90,524	0	0	90,524	15,027	105,551
Culture, Tourism & Property	90,524	0	0	90,524	15,027	105,551
Regeneration & Business Development	90,523	0	0	90,523	15,027	105,550
Digital Futures	90,524	0	0	90,524	15,027	105,551

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

	2019/20			2018/19		
	Number of Staff			Number of Staff		
	Council	Schools	Total	Council	Schools	Total
£50,000 to £54,999	33	9	42	30	9	39
£55,000 to £59,999	35	6	41	21	6	27
£60,000 to £64,999	12	5	17	11	0	11
£65,000 to £69,999	16	0	16	14	4	18
£70,000 to £74,999	5	4	9	7	3	10
£75,000 to £79,999	3	2	5	2	1	3
£80,000 to £84,999	0	2	2	0	1	1
£85,000 to £89,999	2	0	2	0	1	1
£90,000 to £94,999	0	1	1	0	0	0
£95,000 to £99,999	0	0	0	0	0	0
£110,000 to £114,999	0	0	0	1	0	1
£165,000 to £169,999	0	0	0	0	0	0
£175,000 to £179,999	1	0	1	0	0	0
£190,000 to £194,999	1	0	1	0	0	0
Total	108	29	137	86	25	111

Remuneration includes all sums paid to or receivable by employees, expense allowances chargeable to tax, severance payments and the money value of benefits.

Exit package cost band including special payments

	Total number of exit packages by cost band						Total cost of exit packages	
	2019/20			2018/19			2019/20	2018/19
	Compulsory	Other	Total	Compulsory	Other	Total	£	£
Council Staff								
£0 - £19,999	3	7	10	2	2	4	81,306	31,528
£20,000 - £39,999	4	4	8	4	1	5	241,711	132,730
£40,000 - £59,999	0	3	3	1	1	2	151,678	84,430
£60,000 - £79,999	0	1	1	0	2	2	61,830	130,459
£80,000 - £99,999	0	0	0	0	0	0	0	0
£100,000 - £149,999	1	1	2	0	2	2	286,238	240,078
£150,000 - £199,999	0	1	1	0	0	0	176,057	0
Total	8	17	25	7	8	15	998,820	619,225
School Staff								
£0 - £19,999	2	18	20	6	2	8	154,019	18,272
£20,000 - £39,999	0	1	1	0	0	0	21,800	0
Total	2	19	21	6	2	8	175,819	18,272
Total	10	36	46	13	10	23	1,174,639	637,497

Note 16. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's external auditors:

	2019/20 £000	2018/19 £000
Fees payable with regard to external audit services	110	110
Fees payable for the certification of grant claims and returns	23	28
Fees payable in respect of other services provided	6	0
Total Audit Costs	139	138

Note 17. Dedicated Schools Grant

The Council's expenditure on schools and early years childcare is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget and for early years childcare, as defined in the School and Early Years Finance (England) Regulations 2018.

Details of the deployment of DSG receivable are as follows:

	2019/20 Central Expenditure £000	2019/20 Individual Schools Budget £000	2019/20 Total £000	2018/19 Total £000
Final DSG before academy recoupment			150,549	147,745
Academy figure recouped			(103,560)	(98,478)
Total DSG after academy recoupment			46,989	49,267
Plus: Brought forward from prior year			216	(65)
Less: Carry forward to following year, agreed in advance			(216)	65
Total DSG available			46,989	49,267
Agreed initial budgeted distribution	1,748	44,901	46,649	56,795
In year adjustments (early years, academy recoupment, high need import and export adjustment)	0	470	470	(7,733)
Final budget distribution	1,748	45,371	47,119	49,062
Less: Actual central expenditure	(1,713)		(1,713)	(1,699)
Less: Actual ISB deployed to Schools and providers		(44,374)	(44,374)	(47,082)
Carry forward to following year	35	997	1,032	281
Plus: Carry forward agreed in advance			216	(65)
Total DSG Carried Forward			1,248	216

Note 18. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20.

	2019/20 £000	2018/19 £000
Credited to Taxation and Non Specific Grant Income		
Non-Ringfenced Government Grants		
Business Rates Top Up and S31 Grants	18,095	16,149
Revenue Support Grant	5,925	10,318
Covid-19 Local Authority Support Grant	5,128	0
New Homes Bonus	2,031	1,445
Adult Social Care Grant	1,408	515
Education Support Grant	429	420
Other non-ringfenced government grants	203	166
	33,219	29,013
Capital Grants and Contributions		
Airport Business Park	9,815	3,470
Highways Infrastructure	5,137	5,276
Culture	707	533
Housing	695	1,051
Schools	638	717
Energy	108	0
ICT	0	667
Other	0	56
	17,100	11,770
Total	50,319	40,783

	2019/20 £000	2018/19 £000
Credited to Services		
Housing Benefits	59,514	66,393
Dedicated Schools Grant	46,690	48,643
Other grants and third party contributions funding REFCUS	14,612	7,789
Public Health Grant	9,212	9,462
Funding from Clinical Commissioning Groups	7,422	8,558
Improved Better Care Fund	6,744	3,726
Education and Skills Funding Agency	3,545	2,708
Pupil Premium	1,881	2,547
South East Business Boost	1,592	2,738
DfT Access Fund	1,173	1,179
Unaccompanied Asylum Children	1,077	719
Homelessness/Rough Sleeper Initiatives	1,169	805
Housing Benefit Administration	1,018	1,284
Universal Infant Free School Meals Grant	904	1,114
Other Service Grants and Contributions	7,058	5,414
Total	163,611	163,079

With the exception of grants for £2.866M for schools relating to 2020/21 and a contribution of £0.177M for highways relating to 2020/21 which have been recognised as capital grants received in advance, the Council has recognised all of the grants and contributions received as income through the Comprehensive Income and Expenditure Statement, as any conditions attached to the grants and contributions that may have required the monies or property to be returned to the giver have been met.

NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

Note 19. Adjustments between Accounting Basis and Funding Basis under Regulations

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

General Fund Balance

The General Fund is the statutory fund into which all the receipts of a council are required to be paid, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment 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 and/or the financial year in which this can take place.

2019/20	Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the comprehensive income and expenditure statement:						
Charges for depreciation of non-current assets	15,036	6,706	0	0	0	(21,742)
Revaluation and impairment losses on property, plant and equipment and intangible assets	4,144	1,219	0	0	0	(5,363)
Movements in the market value of investment properties	(355)	3	0	0	0	352
Amortisation of intangible assets	1,181	0	0	0	0	(1,181)
Capital grants and contributions applied	(17,638)	1,564			4,238	11,836
Revenue expenditure funded from capital under statute	13,625	208	0	0	0	(13,833)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the comprehensive income and expenditure statement	1,080	1,196	0	0	0	(2,276)
Change in fair value of pooled investments taken to Financial Instruments Revaluation Reserve	1,292	0	0	0	0	(1,292)
Insertion of items not debited or credited to the comprehensive income and expenditure statement:						
Statutory provision for the financing of capital investment	(4,919)	0	0	0	0	4,919
Capital expenditure charged against the General Fund and HRA Balances	(962)	(4,826)	0	0	0	5,788
Adjustments primarily involving the Capital Grants Unapplied Account						
Capital grants and contributions unapplied credited to the comprehensive income and expenditure statement	(13,870)	(1,768)	0	0	15,638	0
Application of grants to capital financing transferred to the capital adjustment account	0	0	0	0	(16,860)	16,860
Adjustments primarily involving the Major Repairs Reserve						
Reverse MRA credited to HRA	0	(6,706)	0	0	0	6,706
Reversal of HRA Depreciation credited to the Major Repairs Reserve	0	0	0	6,706	0	(6,706)
Use of the major repairs reserve to finance new capital expenditure	0	0	0	(5,929)	0	5,929
Adjustments primarily involving the Deferred Capital Receipts Account						
Transfer of deferred capital receipt recognised as income in the Comprehensive Income and Expenditure Account	(750)	0	0	0	0	750

2019/20	Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Receipts Reserve						
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the comprehensive income and expenditure statement	(3,650)	(2,102)	5,752	0	0	0
Use of the capital receipts reserve towards administrative costs of non-current asset disposals	0	0	0	0	0	0
Use of the capital receipts reserve to repay borrowing	0	0	0	0	0	0
Use of the capital receipts reserve to finance new capital expenditure	0	0	(2,340)	0	0	2,340
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	666	0	(666)	0	0	0
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits debited or credited to the comprehensive income and expenditure statement (see note 36)	23,658	0	0	0	0	(23,658)
Employer's pensions contributions and direct payments to pensioners payable in the year	(9,496)	0	0	0	0	9,496
Adjustments primarily involving the Collection Fund Adjustment Account						
Amount by which council tax and business rate income credited to the comprehensive income and expenditure statement is different from council tax and business rate income calculated for the year in accordance with statutory requirements	1,632	0	0	0	0	(1,632)
Adjustments primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	96	0	0	0	0	(96)
Total Adjustments	10,770	(4,506)	2,746	777	3,016	(12,803)

2018/19 Comparative Figures	Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the comprehensive income and expenditure statement:						
Charges for depreciation of non-current assets	13,649	6,449	0	0	0	(20,098)
Revaluation and impairment losses on property, plant and equipment and intangible assets	6,472	(48)	0	0	0	(6,424)
Movements in the market value of investment properties	290	0	0	0	0	(290)
Amortisation of intangible assets	828	0	0	0	0	(828)
Capital grants and contributions applied	(7,982)	1,045	0	0	(1,446)	8,383
Revenue expenditure funded from capital under statute	18,134	168	0	0	0	(18,302)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the comprehensive income and expenditure statement	32,829	1,359	0	0	0	(34,188)
Change in fair value of pooled investments taken to Financial Instruments Revaluation Reserve	(454)	0	0	0	0	454
Insertion of items not debited or credited to the comprehensive income and expenditure statement:						
Statutory provision for the financing of capital investment	(1,359)	0	0	0	0	1,359
Capital expenditure charged against the General Fund and HRA Balances	(2,002)	(1,390)	0	0	0	3,392
Adjustments primarily involving the Capital Grants Unapplied Account						
Capital grants and contributions unapplied credited to the comprehensive income and expenditure statement	(10,845)	(1,777)	0	0	12,622	0
Application of grants to capital financing transferred to the capital adjustment account	0	0	0	0	(10,540)	10,540
Adjustments primarily involving the Major Repairs Reserve						
Reverse MRA credited to HRA	0	(6,449)	0	0	0	6,449
Reversal of HRA Depreciation credited to the Major Repairs Reserve	0	0	0	6,449	0	(6,449)
Use of the major repairs reserve to finance new capital expenditure	0	0	0	(6,076)	0	6,076
Adjustments primarily involving the Deferred Capital Receipts Account						
Transfer of deferred capital receipt recognised as income in the Comprehensive Income and Expenditure Account	0	0	2,000	0	0	(2,000)

2018/19 Comparative Figures	Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Receipts Reserve						
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the comprehensive income and expenditure statement	(816)	(2,170)	2,986	0	0	0
Use of the capital receipts reserve towards administrative costs of non-current asset disposals	0	0	0	0	0	0
Use of the capital receipts reserve to repay borrowing	0	0	(2,000)	0	0	2000
Use of the capital receipts reserve to finance new capital expenditure	0	0	(2,051)	0	0	2,051
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	571	0	(571)	0	0	0
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits debited or credited to the comprehensive income and expenditure statement (see note 36)	23,328	0	0	0	0	(23,328)
Employer's pensions contributions and direct payments to pensioners payable in the year	(8,652)	0	0	0	0	8,652
Adjustments primarily involving the Collection Fund Adjustment Account						
Amount by which council tax and business rate income credited to the comprehensive income and expenditure statement is different from council tax and business rate income calculated for the year in accordance with statutory requirements	(858)	0	0	0	0	858
Adjustments primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(405)	0	0	0	0	405
Total Adjustments	62,728	(2,813)	364	373	636	(61,288)

Note 20. Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2019/20.

Earmarked Reserves	Balance at 31 March 2018 £000	Transfers		Balance at 31 March 2019 £000	Transfers		Balance at 31 March 2020 £000
		To £000	From £000		To £000	From £000	
Schools Balances	4,078	0	(451)	3,627	0	(432)	3,195
General Fund Reserves							
Capital Investment Reserves	12,914	1,445	(1,721)	12,638	1,296	(2,527)	11,407
Insurance Reserves	6,800	0	0	6,800	0	(837)	5,963
Corporate Reserves	23,681	10,874	(1,648)	32,907	12,740	(4,080)	41,567
Service Reserves	14,460	3,654	(4,096)	14,018	658	(6,281)	8,395
Grants Reserves	3,670	2,612	(2,032)	4,250	2,107	(1,454)	4,903
Monies held in Trust	53	0	0	53	0	0	53
Total GF Reserves	61,578	18,585	(9,497)	70,666	16,801	(15,179)	72,288
HRA Service Reserves	28,258	5,522	(1,390)	32,390	2,486	(2,955)	31,921
Total Earmarked Reserves	93,914	24,107	(11,338)	106,683	19,287	(18,566)	107,404

Schools Balances

The school's balances for both revenue and capital are all committed to be spent on the education service. The amounts disclosed in the balance sheet represent an amalgamation of unspent and overspent balances.

Capital Investment Reserves

Amounts set aside to fund future capital projects.

Insurance Reserve

A reserve that covers potential claim liabilities arising from the Employers' Liability, Public Liability, Property, and other insurable risks retained by the Council.

Corporate Reserves

Amounts set aside to fund the costs of corporate, non-service specific activities, such as business transformation, interest equalisation and pensions.

Service Reserves

Amounts set aside to fund the costs of service specific activities, such as waste management and benefits subsidy. Separate service reserves are held for General Fund and Housing Revenue Account services.

Grants Reserves

In compliance with Recommended Practice, service grant income received in the year has been fully recognised, even where it has not necessarily been or planned to be spent. In these cases, the spending power of the grant has been preserved through the use of earmarked reserves.

Monies held in Trust

The Council holds monies in respect of two trust funds and on behalf of several children pending them reaching the age of 18.

NOTES SUPPORTING THE BALANCE SHEET

Note 21. Property, Plant and Equipment

Movements in 2019/20	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuation as at 1 April 2019	386,785	287,437	15,057	158,088	3,377	4,095	14,627	869,466
Additions	12,588	3,927	2,184	9,387	137	0	13,219	41,442
Revaluations via Revaluation Reserve	3,485	(4,863)	0	0	0	(250)	0	(1,628)
Revaluations recognised in the CIES	(1,215)	(1,975)	(19)	(454)	0	0	(1,434)	(5,097)
Disposals	(1,283)	(158)	(509)	(618)	0	0	(44)	(2,612)
Transfers	3,412	(513)	0	0	0	(305)	(2,810)	(216)
Gross Book Value as at 31 March 2020	403,772	283,855	16,713	166,403	3,514	3,540	23,558	901,355
Accumulated Depreciation as at 1 April 2019	(22,072)	(11,256)	(6,311)	(57,452)	0	(13)	0	(97,104)
Depreciation	(6,510)	(6,265)	(1,368)	(7,104)	0	(4)	0	(21,251)
Written out to Revaluation Reserve	3	0	0	0	0	0	0	3
Written out to the CIES	0	0	0	0	0	0	0	0
On Disposals	87	12	509	618	0	0	0	1,226
On Transfers	(70)	70	0	0	0	0	0	0
Accumulated Depreciation as at 31 March 2020	(28,562)	(17,439)	(7,170)	(63,938)	0	(17)	0	(117,126)
Net Book Value as at 31 March 2019	364,713	276,181	8,746	100,636	3,377	4,082	14,627	772,362
Net Book Value as at 31 March 2020	375,210	266,416	9,543	102,465	3,514	3,523	23,558	784,229

Movements in 2018/19	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuation as at 1 April 2018	374,630	315,114	13,914	145,834	1,076	1,085	8,618	860,271
Additions	6,345	3,446	1,251	9,158	8	0	7,117	27,325
Revaluations via Revaluation Reserve	6,858	14,132	0	0	0	3,180	0	24,170
Revaluations recognised in the CIES	50	(5,808)	(9)	(120)	0	(93)	(357)	(6,337)
Disposals	(1,440)	(34,089)	(157)	0	0	0	0	(35,686)
Transfers	342	(5,358)	58	3,216	2,293	(77)	(751)	(277)
Gross Book Value as at 31 March 2019	386,785	287,437	15,057	158,088	3,377	4,095	14,627	869,466
Accumulated Depreciation as at 1 April 2018	(15,910)	(9,936)	(5,127)	(50,748)	0	(14)	0	(81,735)
Depreciation	(6,243)	(5,270)	(1,234)	(6,704)	0	(6)	0	(19,457)
Written out to Revaluation Reserve	0	1,897	0	0	0	1	0	1,898
Written out to the CIES	0	648	0	0	0	6	0	654
On Disposals	81	1,385	57	0	0	0	0	1,523
On Transfers	0	20	(7)	0	0	0	0	13
Accumulated Depreciation as at 31 March 2019	(22,072)	(11,256)	(6,311)	(57,452)	0	(13)	0	(97,104)
Net Book Value as at 31 March 2018	358,720	305,178	8,787	95,086	1,076	1,071	8,618	778,536
Net Book Value as at 31 March 2019	364,713	276,181	8,746	100,636	3,377	4,082	14,627	772,362

Depreciation

The useful lives disclosed below are the number of years remaining, over which the asset is depreciated (where applicable):

2019/20 Useful Economic Life Years	Fixed Asset Category	2018/19 Useful Economic Life Years
Between 1 and 59	Council Dwellings	Between 1 and 60
Between 1 and 59	Other Land & Buildings	Between 1 and 60
Between 2 and 50	Vehicles, Plant, Furniture and Equipment	Between 1 and 51
Between 1 and 42	Infrastructure Assets	Between 1 and 43
Nil	Community Assets	Nil
Between 32 and 57	Surplus Assets	Between 33 and 58
Nil	Assets Under Construction	Nil

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. Valuations were carried out using external valuers. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). Valuations of vehicles, plant, furniture, and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

A variety of assets were revalued this year, some as part of the 5-year rolling programme. The main assets were investment properties, Southchurch Hall, the Cliff Lift, cliff bandstand, the pier structure and the Mayor's official residence, Porters. The significant assumptions applied in estimating their current values were:

- The data provided by the Council was accurate at 1 April 2019.
- The Council has good title to the asset, free from onerous covenant and other encumbrances.
- There are no planning proposals that are likely to have an effect on the value of the properties.
- All properties are at a suitable level of condition for service provision and that all internal and external repairs and maintenance have been carried out.
- No deleterious or hazardous material has been used in the construction of the properties or has since been incorporated.
- No contaminative or potentially contaminative uses have ever been carried out on the property.
- The use of relevant data from the Building Cost Information Service of RICS (BCIS).

At 31 March 2020, due to the Covid-19 pandemic, valuations are included on the basis of 'material valuation uncertainty' so a higher degree of caution should be attached to these valuations. However, they have been based on the best information available and are therefore a valid basis of valuation for this Statement of Accounts.

Indexation

A market review is undertaken by the external valuers at each year-end and indexation adjustments are applied as appropriate to ensure that the carrying amount of relevant assets is not materially different from their current value at the year-end. Relevant data from BCIS is subject to uncertainty. It is still too early to form a view, but forecasts are subject to change as the knock on effect of Covid-19 on the construction market becomes clear.

The following table shows the progress of the Council's rolling programme for the revaluations of fixed assets.

Year of Rolling Programme	Internal/ External Valuation	Valuer	Assets Revalued
2015/16	External	Wilks Head & Eve	Housing Revenue Account council dwellings, investment properties, garages and hostels
2016/17	External	Whybrow and Dodds	Car parks, clubs, bus station, community centres, depots, libraries, museum, shelters, leisure centres, theatres, public conveniences, investment properties, care homes, cemetery offices, crematorium, Porters, Southchurch Hall, the Cliff Lift and council administrative buildings
2017/18	External	Whybrow and Dodds	Schools, Sports Pavilions, Park WCs, Park Messrooms, Day Centres, The Beach Club and Lagoon WCs
2018/19	External	Whybrow and Dodds	Theatres, parks, pier assets (excluding structure), Southend Adult Community College, investment properties and General Fund council dwellings
2019/20	External	Whybrow and Dodds	Investment properties, Southchurch Hall, the Cliff Lift, cliff bandstand, pier structure and Porters

The basis for valuation is set out in the statement of accounting policies.

Note 22. Intangible Assets

The movement on Intangible Asset balances during the year is as follows:

Purchased Software Licences	2019/20 £000	2018/19 £000
Gross carrying amount at start of year	14,764	12,170
Accumulated amortisation	(6,559)	(5,731)
Net carrying amount at start of year	8,205	6,439
Additions	1,779	2,626
Impairment	(2)	(32)
Disposals	(454)	0
<u>Amortisation</u>		
Written out to CIES	454	0
For Current Year	(1,181)	(828)
Gross carrying amount at end of year	16,087	14,764
Accumulated amortisation	(7,286)	(6,559)
Net carrying amount at end of year	8,801	8,205

The useful lives for these assets (the number of years remaining over which they are depreciated) are between 1 and 14 years.

Note 23. Heritage Assets

The Council's Heritage Assets consist of historic seaside assets, heritage land and buildings, antiques/collectables, museum exhibits and memorials/statues.

Historic Seaside Assets

The historic seaside assets comprise the pier, the cliff lift, and the cliff bandstand. These assets are considered to be part of the fabric of the town as an historic seaside resort.

Heritage Land and Buildings

These consist of the official mayor's residence, Porters, and Southchurch Hall, a grade I listed medieval manor house. These assets are considered to be part of the heritage of the town and are intended to be preserved for future generations because of their cultural, environmental, or historical associations.

Antiques / Collectables

These comprise furniture and furnishings, panelling, carpets, textiles, clocks, silver, plated wares and gold, works of art, ceramics and glass, books, pictures and presentation and commemorative wares. These antiques/collectables date from between the 16th Century and the 20th Century.

Museum Collections

The Council considers that obtaining valuations for the items that are exhibited within the borough's museums would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values. The Council does not recognise these exhibits on the Balance Sheet.

The exception is the Saxon King artefacts which form part of the Council's heritage assets and have been valued by a specialist in archaeology. These items are reported in the Balance Sheet at this valuation which is based on sale prices of comparable material and museum valuations for loan purposes, where relevant. The valuations also take into account the condition of the objects, their rare or unique nature and their relationship to material from other high-status burial contexts such as Sutton Hoo and Taplow. These assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Memorials and Statues

These are a statue of Queen Victoria which was presented to the town to mark the Queens Jubilee in 1897, and a Lutyens War Memorial to commemorate lives lost in the First World War which was built in 1920. The Council does not consider that reliable cost or valuation information can be obtained for the items due to the lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet.

Reconciliation of the carrying value of heritage assets held by the Council:

	Historic Seaside Assets £000	Heritage Land & Buildings £000	Antiques and Collectables £000	Museum Collections £000	Total Heritage Assets £000
Movements in 2019/20					
Cost or Valuation as at 1 April 2019	36,414	1,964	896	1,557	40,831
Additions	2,636	0	0	0	2,636
Revaluations via Revaluation Reserve	(13,799)	(4)	0	0	(13,803)
Revaluations recognised in the CIES	(264)	0	0	0	(264)
Gross Book Value as at 31 March 2020	24,987	1,960	896	1,557	29,400
Accumulated Depreciation as at 1 April 2019	(2,960)	(128)	0	0	(3,088)
Depreciation	(461)	(30)	0	0	(491)
Written out to Revaluation Reserve	3,085	2	0	0	3,087
Written out to the CIES	0	0	0	0	0
Accumulated Depreciation as at 31 March 2020	(336)	(156)	0	0	(492)
Net Book Value as at 31 March 2019	33,454	1,836	896	1,557	37,743
Net Book Value as at 31 March 2020	24,651	1,804	896	1,557	28,908

	Historic Seaside Assets £000	Heritage Land & Buildings £000	Antiques and Collectables £000	Museum Collections £000	Total Heritage Assets £000
Movements in 2018/19					
Cost or Valuation as at 1 April 2018	35,730	1,964	896	1,557	40,147
Additions	1,393	0	0	0	1,393
Revaluations via Revaluation Reserve					0
Revaluations recognised in the CIES	(709)	0	0	0	(709)
Gross Book Value as at 31 March 2019	36,414	1,964	896	1,557	40,831
Accumulated Depreciation as at 1 April 2018	(2,361)	(86)	0	0	(2,447)
Depreciation	(599)	(42)	0	0	(641)
Written out to Revaluation Reserve	0	0	0	0	0
Written out to the CIES	0	0	0	0	0
Accumulated Depreciation as at 31 March 2019	(2,960)	(128)	0	0	(3,088)
Net Book Value as at 31 March 2018	33,369	1,878	896	1,557	37,700
Net Book Value as at 31 March 2019	33,454	1,836	896	1,557	37,743

Basis of valuation

Asset	Date of last valuation	Valuer	Qualification	Method of valuation
Cliff Lift	01/04/2019	Whybrow and Dodds	MRICS	Existing use value
Porters	01/04/2019	Whybrow and Dodds	MRICS	Depreciated replacement cost
Porters contents	16/08/2013	Webb Valuations Fine Art Ltd	FRICS	Current replacement cost
Southchurch Hall	01/04/2019	Whybrow and Dodds	MRICS	Depreciated replacement cost
Pier	01/04/2019	Whybrow and Dodds	MRICS	Depreciated replacement cost
Bandstand	01/04/2019	Whybrow and Dodds	MRICS	Existing use value
Saxon King artefacts	01/10/2009	Lesley Webster FSA - Society for Medieval Archaeology	FSA	Current replacement cost

Note 24. Investment Properties

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property. The following table summarises the movement in the fair value of investment properties over the year:

	2019/20 £000	2018/19 £000
Balance at start of the year	41,326	41,044
Additions:		
Subsequent Expenditure	0	333
Disposals	(890)	(25)
Net Gains / (Losses) from fair value adjustments		
Transfers:		
(to) / from Property, Plant and Equipment	216	264
Revaluations and impairments	352	(290)
Balance at end of the year	41,004	41,326

All the Council's investment properties are categorised as commercial.

The fair value of these assets has been measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream.

Third party resources have been used to value these assets. Typical valuation inputs which have been analysed in arriving at the fair valuations include:

- rental incomes.
- CBRE UK Property Investment Yields.
- external valuers' professional judgement on yields.

The Council's investment properties are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (see the accounting policy for Fair Value Measurement in note 1). There is no

reasonably available information that indicates that market participants would use different assumptions.

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

The approach to investment property valuation has been developed using the authority's own data requiring it to factor in assumptions such as the duration and timing of cash inflows and outflows, rent growth, occupancy levels, bad debt levels, and maintenance costs. The ranges used, on a weighted average basis, are maintained on a consistent basis year on year. The ranges are sensitive to significant changes in rental income and rent growth; vacancy levels or discount rate which can result in a significantly lower or higher fair value. The Council's investment property portfolio is relatively stable and there has been no change in the valuation techniques used for Investment Properties in 2019/20 including the applicable ranges.

The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The authority's valuation experts work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters.

At 31 March 2020, due to the Covid-19 pandemic, valuations are included on the basis of 'material valuation uncertainty' so a higher degree of caution should be attached to these valuations. However, they have been based on the best information available and are therefore a valid basis of valuation for this Statement of Accounts.

The investment property portfolio was also subject to an impairment allowance at 31 March 2020 of one quarter rent, totalling £1.405M across all properties. It is still too early to form a view on how rents and values will be impacted, particularly with fewer properties being brought to the market on which to base that judgement.

Note 25. Financial Instruments

Categorisation of Financial Assets under IFRS9

Amortised cost

The Council holds various term deposits and instant access accounts with banks and other financial institutions and has made loans to its subsidiaries or institutions that it considers to be an important partner in delivering services. These are held at amortised cost and the Council considers these a normal part its operations and cash flow and holds the instruments to collect contractual cash flows.

Fair value through profit or loss

The Council holds units in money market funds, an enhanced cash fund, short dated bond funds and property funds at fair value. These are classified as fair value through profit or loss as the income is not solely from principal and interest.

Categories of Financial Instruments

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

	Non-Current		Current	
	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000
Investments, Cash and Cash Equivalents				
Financial Assets at Amortised Cost	70	44	74,252	13,643
Financial Assets at Fair Value Through Profit or Loss	27,554	28,384	24,023	53,475
Total Investments	27,624	28,428	98,275	67,118
Debtors				
Financial Assets at Amortised Cost	3,101	2,538	32,125	35,311
Total Debtors	3,101	2,538	32,125	35,311
Borrowings				
Financial Liabilities at Amortised Cost	329,566	280,244	1,514	8,856
Total Borrowings	329,566	280,244	1,514	8,856
Creditors				
Financial Liabilities at Amortised Cost	14	14	28,968	24,874
Total Creditors	14	14	28,968	24,874

Reclassifications

There were no reclassifications of financial instruments during 2019/20.

Income, Expense, Gains and Losses

2019/20	Financial Liabilities measured at:	Financial Assets measured at:		
	Amortised Cost £000	Amortised Cost £000	Fair Value Through Profit or Loss £000	Total £000
Interest Expense	12,315	0	0	12,315
Fee Expense	21	0	123	144
Total Expense in Surplus or Deficit on the Provision of Services	12,336	0	123	12,459
Interest Income	0	(400)	(564)	(964)
Total Income in Surplus or Deficit on the Provision of Services	0	(400)	(564)	(964)
Net Gain / (Loss) for the year	12,336	(400)	(441)	11,495

2018/19	Financial Liabilities measured at:	Financial Assets measured at:	Fair Value Through Profit or Loss	Total
	Amortised Cost £000	Amortised Cost £000	£000	£000
Interest Expense	11,223	0	0	11,223
Fee Expense	20	0	94	114
Total Expense in Surplus or Deficit on the Provision of Services	11,243	0	94	11,337
Interest Income	0	(55)	(2,007)	(2,062)
Total Income in Surplus or Deficit on the Provision of Services	0	(55)	(2,007)	(2,062)
Gains on Revaluation	0	0	9	9
Net Gain / (Loss) for the year	11,243	(55)	(1,913)	9,275

Fair Values of Assets and Liabilities

Financial liabilities, financial assets (except for those classified as fair value through profit and loss) and long-term debtors and creditors 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 will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates at 31 March 2020 of 2.10% to 2.85% for loans from the PWLB based on new lending rates for equivalent loans at that date
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

The fair values calculated are the same as the carrying amount except where shown below:

The fair value of the financial liabilities are categorised as Level 2 in the fair value hierarchy as the measurement technique uses inputs other than quoted prices included within Level 1 that are observable for the loans.

The financial liabilities where the fair value differs from the carrying value are held with PWLB and market lenders. All these borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount a financial model valuation has been used. This valuation applies the net present value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. Our accounting policy uses new loan borrowing rates to discount the future cash flows.

	31 March 2020		31 March 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities	360,048	411,116	313,974	385,130
Long Term Creditors	14	14	14	14

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes several fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2020) arising from a commitment to pay interest to lenders above current market rates.

	31 March 2020	31 March 2019
	Carrying Amount	Carrying Amount
	£000	£000
Financial Assets	158,024	130,857
Long Term Debtors	3,101	2,538

Fair Value through Profit and Loss

The fair value of the property funds, the short-dated bond funds, the enhanced cash fund, and the money market funds have been measured using the quoted price of units. These assets have therefore been categorised as Level 1 in the fair value hierarchy as they have unadjusted quoted prices in active markets for identical assets that the authority can access at the measurement date. The table below sets out the input level in the fair value hierarchy and the valuation techniques for each type of fund.

Recurring Fair Value Measurements	Input level in Fair Value Hierarchy	Valuation Technique used to Measure Fair Value	Source of Prices or Inputs	31 March 2020	31 March 2019
				£000	£000
Fair Value Through Profit or Loss:					
Money Market Funds	Level 1	Unadjusted quoted prices in active markets for identical assets	Unit price of fund	4,011	33,011
Enhanced Cash Fund	Level 1	Unadjusted quoted prices in active markets for identical assets	Unit price of fund	4,990	5,066
Short Dated Bond Funds	Level 1	Unadjusted quoted prices in active markets for identical assets	Unit price of fund	15,022	15,398
Property Funds	Level 1	Unadjusted quoted prices in active markets for identical assets	Unit price of fund	27,815	28,678
Total Fair Value Through Profit or Loss				51,838	82,153

Due to the Covid-19 outbreak and the high level of uncertainty regarding the unit price and therefore fund valuations, the property fund managers have inserted a Material Uncertainty Clause into the March 2020 valuation reports. (The value of these funds is shown in the table above, however a change in the unit price of 27% would need to occur before the effect on this balance became material.) This indicates that a higher degree of caution should be attached to these valuations. As time progresses if the uncertainty reduces more reliance can be placed on the prevailing quoted unit price and the Material Uncertainty Clauses will be removed. Any resulting movement in the Fair Value will be credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the financial reporting period in which the movement occurs.

Note 26. Short Term Debtors

	31 March 2020	31 March 2019
	£000	£000
Central government bodies	21,069	12,237
Local authorities	2,705	1,954
NHS bodies	1,133	663
Public corporations and trading funds	1	0
Other entities and individuals	22,164	21,889
Total Debtors	47,072	36,743
Value of impairment included above	(11,727)	(10,930)

Note 27. Cash and Cash Equivalents

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

	31 March 2020	31 March 2019
	£000	£000
Cash and cash equivalents held by the Council	36,822	41,006
Bank Current Accounts held by schools	5,558	5,355
Euro bank account held by the Council	405	0
Total Cash and Cash Equivalents	42,785	46,361

The Euro bank account is used where the Council receives monies denominated in Euros and is also required to pay them out in Euros, therefore eliminating exchange rate risk. The above balance at 31 March 2020 occurred due to monies from the European Regional Development Fund being received before the year end being paid out to the Council's programme partners over a period from late March to April. At 31 March 2020 €0.457M was due to be paid out.

Note 28. Short Term Creditors

	31 March 2020	31 March 2019
	£000	£000
Central government bodies	11,560	9,228
Other local authorities	6,034	5,793
NHS bodies	806	1,491
Other entities and individuals	32,787	27,568
Total Creditors	51,187	44,080

Note 29. Provisions

	Insurance	Redundancy	Business Rate Appeals	Other Provisions	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2018	2,405	958	1,507	598	5,468
Additional provisions made in year	0	214	891	0	1,105
Amounts used in year	0	(672)	(314)	0	(986)
Unused amounts reversed in year	(550)	0	0	(598)	(1,148)
Balance at 31 March 2019	1,855	500	2,084	0	4,439
Additional provisions made in year	837	499	1,156	0	2,492
Amounts used in year	0	(999)	(546)	0	(1,545)
Unused amounts reversed in year	0	0	0	0	0
Balance at 31 March 2020	2,692	0	2,694	0	5,386

Insurance Provision

This reflects the total value of claims outstanding at the year-end for which the Council has a future liability of uncertain timing. In addition the Council keeps an insurance reserve (shown in Note 20) to mitigate against the risk of potential claims arising in the future.

Redundancy Provision

Historically this provision was used for both actual cost of exit payments and estimated payments which resulted from organisational management decisions taken during the reporting financial year but were to be paid in future years. No provision has been made at 31 March 2020 as any future estimated payments arising from decisions during 2019/20 but payable during 2020/21 will be met from Corporate Earmarked Reserves (see note 20).

Business Rates Appeals Provision

This reflects the Council's share of the potential for successful appeals by local businesses against the rateable value of the premises they use, and therefore the potential need for the Council to refund rates paid in 2019/20 and prior years. The overall liability is shared with Central Government and the Essex Fire Service.

Note 30. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 19 and 20.

Note 31. Unusable Reserves

Movements in the Council's unusable reserves are detailed in the Movement in Reserves Statement and in the individual tables below.

Revaluation Reserve

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

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

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

	2019/20	2018/19
	£000	£000
Balance at 1 April	277,092	272,586
Upward revaluation of assets	4,723	30,827
Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the provision of services	(17,064)	(4,759)
Surplus or Deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the provision of services	(12,341)	26,068
Difference between fair value and historical cost depreciation	(4,957)	(4,260)
Balance attributable to disposal/write offs	(457)	(17,302)
Amount written off to the capital adjustment account	(5,414)	(21,562)
Balance at 31 March	259,337	277,092

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction, or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, downward revaluation and impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction, and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 19 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2019/20		2018/19
	£000	£000	£000
Balance at 1 April		211,380	236,147
<i>Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement</i>			
Charges for depreciation and revaluation gains and losses and impairment losses on non-current assets	(27,105)		(26,522)
Amortisation of intangible assets	(1,181)		(828)
Revenue expenditure funded from capital under statute	(13,833)		(18,302)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the comprehensive income and expenditure statement	(2,276)		(34,188)
		(44,395)	(79,840)
Adjusting amounts written out of the revaluation reserve		5,414	21,562
Net written out amount of the cost of non-current assets consumed in the year		(38,981)	(58,278)
<i>Capital financing applied in the year</i>			
Use of the capital receipts reserve to finance new capital expenditure	2,340		2,051
Use of the major repairs reserve to finance new capital expenditure	5,929		6,076
Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing	28,696		18,923
Statutory provision for the financing of capital investment charged against the general fund and HRA balances	4,919		1,359
Use of the capital receipts reserve to repay borrowing	0		2,000
Capital expenditure charged against the general fund and HRA balances	5,788		3,392
		47,672	33,801
Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement		352	(290)
Balance at 31 March		220,423	211,380

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2019/20 £000	2018/19 £000
Balance at 1 April	(151,806)	(168,922)
Remeasurements of the net defined benefit liability/(asset)	21,446	31,792
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(23,658)	(23,328)
Employer's pensions contributions and direct payments to pensioners payable in the year	9,496	8,652
Balance at 31 March	(144,522)	(151,806)

Note 32. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, i.e. borrowing, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2019/20 £000	2018/19 £000
Capital Investment		
Property, Plant and Equipment	41,442	27,325
Investment Assets	0	333
Intangible Assets	1,779	2,626
Heritage Assets	2,636	1,393
Revenue Expenditure Funded from Capital Under Statute	13,833	18,302
Total Capital Investment	59,690	49,979
Sources of Finance		
Usable Capital Receipts	2,340	2,051
Government Grants and other Contributions	28,696	18,923
Sums set aside from Revenue:		
Direct Revenue Contributions	5,788	3,392
Major Repairs Reserve	5,929	6,076
Total Financing from Internal Resources	42,753	30,442
Credit arrangements	0	167
Un-supported Capital Borrowing	16,937	19,370
Total Financing from Borrowing / Credit Arrangements	16,937	19,537
Total Capital Financing	59,690	49,979

	2019/20 £000	2018/19 £000
Opening Capital Financing Requirement	359,962	343,187
Explanation of Movements in Year		
Borrowing (unsupported by Government financial assistance)	16,937	19,370
Assets acquired under Finance Leases	0	167
Capital receipts used to repay borrowing	0	(2,000)
Minimum Revenue Provision	(4,343)	(762)
Closing Capital Financing Requirement	372,556	359,962
of which		
General Fund CFR	273,740	261,222
Housing Revenue Account CFR	98,816	98,740
	372,556	359,962

Note 33. Leases

Council as Lessor

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable operating leases in future years are:

	31 March 2020 £000	31 March 2019 £000
Not later than one year	3,030	2,934
Later than one year and not later than five years	9,988	9,875
Later than five years	112,552	109,965
	125,570	122,774

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as rental payments that vary with turnover. In 2019/20 no contingent rents were estimated to be receivable by the Council (2018/19 £25,000 estimated).

Note 34. Downward Revaluation and Impairment Losses

Various assets were revalued at 1 April 2019 as part of the rolling revaluation programme which led to a downward valuation or impairment loss of £12.903M in total.

A market review was carried out at 31 March 2020 which led to a downward valuation or impairment loss of £4.499M in total.

An impairment review was also undertaken of capital additions of which £2.449M was considered not to increase the asset value and therefore was impaired.

As a result of the regular review of the fixed asset register downward revaluations and impairments were identified within the Council Dwellings (£1.371M) and Assets Under Construction (£1.434M) categories of assets.

Note 35. Termination Benefits

The Council continues to undergo a significant programme of service redesign involving, amongst other things, potential redundancy payment obligations that, although not yet identified, if required will be charged on an accruals basis to the appropriate service area.

Note 36. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme (TPS), administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded, and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2019/20 the Council paid £2.3M to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay up to 31 August 2019 and 23.68% from 1 September 2019. The figures for 2018/19 were £1.8M and 16.48% respectively. There were no contributions remaining payable at the year end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis. There were added years payments of £9,521 awarded in respect of the teachers' pension scheme in 2019/20 (2018/19 £3,792).

It is estimated that the Council will pay £2.7m to the Teachers' Pension Scheme in 2020/21 at a continued contribution rate of 23.68%.

NHS Staff Pension Scheme

A number of NHS staff transferred to the Council as of 1 April 2013 as part of the transfer of Public Health from the NHS. There have also been further transfers of NHS staff as Public Health contracted services have been reviewed and the services brought in-house. These staff have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2019/20, the Council paid £0.263M (2018/19 £0.071M) in respect of retirement benefits to NHS Pensions in respect of staff who have transferred into the Council from the NHS, representing 20.68% of pensionable pay. It is estimated that the Council will similarly pay £0.270M to NHS Pensions in 2020/21.

Note 37. Defined Benefit Pension Schemes

Participation in Pensions Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council makes contributions towards the cost of post-employment (retirement) benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS) administered by Essex County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level to balance the pension liabilities with investment assets.

Transactions relating to post-employment benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2019/20 £000	2018/19 £000
Comprehensive Income and Expenditure Statement		
Cost of Services		
Current Service Cost	19,153	17,204
(Gain) / Loss from Settlement	(273)	(3,469)
Cost of Curtailments	1,089	5,263
Administration Expense	146	183
Financing and Investment Income and Expenditure		
Net Interest Expense	3,543	4,147
Total post-employment benefit charged to the surplus or deficit on the provision of services	23,658	23,328
Other post-employment benefit charged to the comprehensive income and expenditure statement		
Return on plan assets in excess of interest	35,498	(25,142)
Other actuarial gains on assets	(1,706)	0
Change in financial assumptions	(57,174)	27,720
Change in demographic assumptions	(4,577)	(34,370)
Experience gain on defined benefit obligation	6,513	0
Remeasurements and Other Comprehensive Income	(21,446)	(31,792)
Total post-employment benefit (credited) / charged to the Comprehensive Income and Expenditure Statement	2,212	(8,464)
Movement in Reserves Statement		
Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the code	(2,212)	8,464
Actual amount charged against the General Fund Balance for Pensions in the year		
Employer's contributions payable to scheme	9,496	8,652

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

Actuarial Gains/(Losses)	31 March 2020 £000	31 March 2019 £000
Present Value of the defined benefit obligation	587,121	624,439
Fair Value of Plan Assets	(442,599)	(472,633)
Net Liability arising from defined benefit obligation	144,522	151,806

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	2019/20 £000	2018/19 £000
Opening Balance at 1 April	624,439	616,828
Current Service Cost	19,153	17,204
Interest Cost	14,806	15,399
Contributions by Scheme Participants	3,460	3,179
Actuarial gains / losses arising from changes in demographic assumptions	(4,577)	(34,370)
Actuarial gains / losses arising from changes in financial assumptions	(57,174)	27,720
Other	6,513	0
Losses on Curtailments	1,089	5,263
Benefits Paid	(19,609)	(18,317)
Liabilities extinguished on Settlements	(979)	(8,467)
Closing Balance at 31 March	587,121	624,439

Reconciliation of fair value of the scheme assets

	2019/20 £000	2018/19 £000
Opening Balance at 1 April	472,633	447,906
Interest Income	11,263	11,252
The return on plan assets, excluding the amount included in the net interest expense	(35,498)	25,142
Other Actuarial Gains	1,706	0
Employer Contributions	9,496	8,652
Contributions by Scheme Participants	3,460	3,179
Benefits Paid	(19,609)	(18,317)
Payment of Bulk Transfer Value	(706)	(4,998)
Administrative Expense	(146)	(183)
Closing Balance at 31 March	442,599	472,633

Local Government Pension Scheme assets

The estimated asset allocation as at 31 March is as follows:

	31 March 2020 £000		31 March 2019 £000	
Equity Investments	259,069	58.5%	294,256	62.3%
Government Bonds	19,077	4.3%	25,085	5.3%
Other Bonds	26,817	6.1%	27,623	5.8%
Property	39,800	9.0%	42,024	8.9%
Cash / Liquidity	18,397	4.2%	12,447	2.6%
Alternative Assets	50,981	11.5%	46,083	9.8%
Other Managed Funds	28,458	6.4%	25,115	5.3%
	442,599	100%	472,633	100%

Of the listed equities allocation, 8% are UK investments, with 92% being overseas investments. 9% of the equities are not listed.

The Government Bonds allocation consists entirely of UK index linked government securities.

The Other Bonds allocation consists entirely of UK corporate bonds.

Of the Property allocation, 28% is listed.

The Alternative Assets allocation is made up of 51% in Infrastructure, 32% in Timber and 17% in Private Debt.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The Pension Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates being based on the last full revaluation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

	2019/20	2018/19
Mortality assumptions:		
Longevity at 65 for Current Pensioners		
Men	21.8	21.3
Women	23.7	23.6
Longevity at 65 for Future Pensioners		
Men	23.2	22.9
Women	25.2	25.4
Rate of Inflation (RPI)	2.7%	3.4%
Rate of Inflation (CPI)	1.9%	2.4%
Rate of increases in salaries	2.9%	3.9%
Rate of increase in pensions	1.9%	2.4%
Rate for discounting scheme liabilities	2.35%	2.40%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies of the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	24,058	(23,048)
Rate of inflation (increase or decrease by 0.1%)	10,469	(10,273)
Rate of increase in salaries (increase or decrease by 0.1%)	864	(857)
Rate of increase in pensions (increase or decrease by 0.1%)	10,469	(10,273)
Rate of discounting scheme liabilities (increase or decrease by 0.1%)	(11,071)	11,294

Impact on the Council's Cash Flows

One of the objectives of the scheme is to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 8 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2022. The scheme currently provides benefits based on career average revalued earnings.

The Council anticipates paying a £14.328M contribution to the scheme in 2020/21.

The weighted average duration of the defined benefit obligation for scheme members is 19 years (19 years 2018/19).

Note 38. Nature and Extent of Risks Arising from Financial Instruments

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

- 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, market prices and stock market movements.

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 a central treasury team, under policies approved by the Council in the annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instruments risks.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The risk with banks and financial institutions is minimised through the Annual Treasury Management Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, the credit ratings being set by Moody, Standard & Poors and Fitch Ratings Services. Regard is also given to rating watches and outlooks and relevant market information as appropriate. The Annual Treasury Management Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria in respect of financial assets held by the Council are as detailed in the Annual Treasury Management Investment Strategy which can be accessed from the Council's website.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £74M cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all the Council's deposits, but there was no evidence at the 31 March 2020 that this was likely to crystallise.

The following analysis summarises the Council's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

Credit Risk	Amounts £000	Historical experience of default %	31 March 2020 Historical experience adjusted for market conditions %	Estimated maximum exposure to default and uncollectability £000	31 March 2019 Estimated maximum exposure to default and uncollectability £000
Deposits With Banks And Other Financial Institutions	74,322	0.00%	0.00%	0	0
Bonds And Other Securities	51,577	0.00%	0.00%	0	0
Customers	33,462	0.30%	0.34%	170	230

No credit limits were exceeded during the reporting period. Although the unit price of units in externally managed funds have fallen because of the Covid-19 pandemic these funds are being held into the medium and longer term. Over that period the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The past due but not impaired amount can be analysed by age as follows:

	31 March 2020 £000	31 March 2019 £000
Less Than Three Months	6,047	4,002
Three To Six Months	893	848
Six Months To One Year	1,316	760
More Than One Year	3,370	2,899
Total	11,626	8,509

Expected Credit Losses

Credit risk at the balance sheet date is assessed by using credit ratings where available and applying the weighted default rate to the balance. Where credit ratings are not available the nature of the financial instrument is considered together with the likelihood that the future cash flows will materialise.

Low risk is considered to be where the credit ratings are A3 and above, where the counterparty is an important partner to the Council with access to external funds or where the Council has a stake in a joint venture or 100% owned subsidiary where the Council has access to the company cash flow forecasts. Where this is the case the 12-month expected credit loss method will be used. All non-trivial balances were assessed as low risk.

The Council applies the rebuttable presumption that credit risk will have increased significantly since initial recognition when contractual payments are more than 30 days past due.

Where a possible default has been identified, where applicable it has been calculated using the credit ratings agencies weighted corporate default rate and applying this to the balance.

For short- and long-term trade debtors the credit risk cannot be assessed individually, so these have been grouped and a collective assessment made by means of a provision matrix.

Expected losses are an allowance based on all reasonably possible future events that could result in default, weighted by likelihood of occurrence. They are calculated by comparing the net present value of all contractual cash flows that are due with the net present value of all cash flows that are expected to be received. There were no non-trivial expected losses identified.

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from other Local Authorities and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy for long term borrowing is to ensure that not more than 40% of loans are due to mature between 2 and 5 years, through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

	31 March 2020 £000	31 March 2019 £000
Less than 1 year	12,125	18,957
Between 1 and 2 years	15,139	11,142
Between 2 and 5 years	43,593	35,911
Between 5 and 10 years	109,305	95,089
Between 10 and 15 years	103,542	112,008
Between 15 and 20 years	68,559	70,368
More than 20 years	215,361	147,519
Total Cost of Loans Over Their Life	567,624	490,994
This total consists of:		
Principal Amount of Loans	318,970	276,544
Future Interest Element	248,654	214,450
Total Cost of Loans Over Their Life	567,624	490,994

These amounts are higher than those recognised in note 25 as they include the interest for each year of the loans, included in the year it falls due.

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

Market Risk

Interest rate risk

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

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall

- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

The Council has several strategies for managing interest rate risk. Policy is to keep an appropriate mix of fixed and variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The treasury management team, together with its advisers, has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	(1,254)
Increase in government grant receivable for financing costs	0
Impact on Surplus or Deficit on the Provision of Services	(1,254)
Share of overall impact debited to the HRA	(551)
Decrease in fair value of fixed rate investment assets	0
Impact on Other Comprehensive Income and Expenditure	0
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	0

Price Risk

The Council has no investments in equity shares, and therefore has no exposure to losses arising from movements in the price of such shares.

The Council holds investments in property funds, short dated bond funds and an enhanced cash fund and therefore has exposure to losses arising from movements in the price of the units of those funds. However, under statute the Financial Instrument Revaluation Reserve must be used to capture the change in fair value of these funds, therefore not impacting the General Fund Balance.

Foreign Exchange Risk

The Council has very limited exposure to loss arising from movements in exchange rates.

NOTES SUPPORTING THE CASH FLOW STATEMENT

Note 39. Cash Flow Statement - Interest Paid and Received

The interest paid and received figures are included within the Net (Surplus) or Deficit on the Provision of Services line of the Cash Flow Statement. The amounts are as follows:

	2019/20 £000	2018/19 £000
Interest paid	12,190	11,209
Interest received	(1,938)	(669)
Net Cash Flows from Interest Paid and Received	10,252	10,540

These figures differ from the Interest Payable and Similar Charges and Interest Receivable and Similar Income figures in Note 11, as they do not include accruals and other non-cash items.

Note 40. Cash Flow Statement – Non-Cash Movements

The Cash flows for non-cash movements include the following items:

	2019/20 £000	2018/19 £000
Depreciation of Non Current Assets	(21,742)	(20,098)
Downward Revaluation and Impairment Losses of Non-Current Assets	(5,363)	(6,424)
Amortisations	(1,181)	(828)
(Increase)/Decrease in impairment for provision for bad debts	(956)	452
(Increase)/Decrease in Creditors	(5,746)	15
Increase/(Decrease) in Debtors	12,041	(735)
Increase/(Decrease) in Inventories	(2)	(108)
Net retirement benefits per IAS19	(14,162)	(14,676)
Carrying amount of assets disposed/sold	(2,276)	(34,188)
Reverse out the movement on the provision debited or credited to the Comprehensive Income and Expenditure Statement and replace with the cash payments made in the year out of the provision	(947)	1,029
Movements in the value of investment properties	352	(290)
Removal of Council Tax and Business Rates Agency Adjustments from Comprehensive Income and Expenditure Statement	1,129	3,675
Other	2	(2)
Net Cash Flows from Operating Activities	(38,851)	(72,178)

Note 41. Cash Flow Statement - Adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities

	2019/20 £000	2018/19 £000
Capital Grants credited to Surplus or deficit on the provision of services	31,712	19,559
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,752	5,026
Proceeds from short-term and long-term investments	508	0
Net Cash Flow Adjustments	37,972	24,585

Note 42. Cash Flow Statement - Investing Activities

	2019/20 £000	2018/19 £000
Purchase of property, plant and equipment, investment property and intangible assets	45,857	31,510
Purchase of short-term and long-term investments	75,046	5,971
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,752)	(5,026)
Proceeds from short-term and long-term investments	(41,819)	(9)
Other receipts from investing activities	(31,712)	(19,559)
Net Cash Flow from Investing Activities	41,620	12,887

Note 43. Cash Flow Statement - Financing Activities

	2019/20 £000	2018/19 £000
Cash receipts of short and long-term borrowing	(50,009)	(40,064)
Cash payments for the reduction of the outstanding liabilities relating to finance leases	272	273
Repayments of short and long-term borrowing	7,582	10,577
Other payments for financing activities	(553)	(3,078)
Net Cash Flow from Financing Activities	(42,708)	(32,292)

OTHER NOTES

Note 44. Related Parties

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 UK Government

Central UK 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 the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council tax bills, housing benefits). Grants received from government departments, and other areas of the public sector, used in 2019/20 and those received but not yet applied as at 31 March 2020 are set out in Note 18.

In addition, the Council works in partnership with NHS Southend Clinical Commissioning Group through a pooled budget arrangement.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2019/20 is shown in Note 14.

As part of their roles, Members are often appointed to be the Council's representatives on outside bodies, and occasionally hold similar roles in their own right. Separately the Council may commission services from these organisations, or potentially grant aid them under its voluntary sector grants programme. Contracts were entered into with full procurement rules compliance and awards made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the Register of Members' Interest, open to public inspection at the Civic Offices during office hours.

It is considered that these transactions do not constitute related party transactions

Officers

Three officers acted as Board members to four of the Council's wholly owned subsidiaries – Southend Trading Corporation Limited, Southend Independent Living Limited, Southend Business Services Limited, and Southend Housing Limited. Southend Trading Corporation Limited and Southend Independent Living Limited have ceased trading. Southend Business Services Limited and Southend Housing Limited had yet to trade as at the balance sheet date. The officers do not hold any pecuniary stake in the companies, nor take any director fee. The Council however is reimbursed for officer time spent on company business.

Five officers acted as Board members to two of the Council's joint ventures – Porters Place Southend-on-Sea LLP and LHCS and Southend Travel Partnership Limited.

Entities Controlled or Significantly Influenced by the Council

Southend-on-Sea Borough Council has a dominant influence over South Essex Homes Limited, which manages the Council's housing stock. During the financial year, four Councillors occupied the three reserved positions on the board of South Essex Homes Limited. All material transactions with the company are recorded in the notes to the consolidated group accounts.

Under IAS19 South Essex Homes Limited must account for the net surplus or deficit arising from its share of the pension assets and liabilities in respect of its employees who are members of the Essex County Council Pension Fund. As at 31 March 2020 there was a net deficit of £5.866M (£7.633M restated at 31 March 2019) in respect of South Essex Homes Limited's pension liabilities. As at 31 March 2020 South Essex Homes Limited also had a retained surplus of £2.776M (£2.282M at 31 March 2019) in respect of its Profit and Loss reserve. Southend-on-Sea Borough Council undertakes to provide continuing financial support to enable the financial statements of South Essex Homes Limited to be prepared on a going concern basis.

Southend-on-Sea Borough Council also has a dominant influence over Southend Care Ltd, which provides adult social care services to the Council. During the course of the financial year no Councillors or Officers acted as Director on the board of Southend Care Ltd. All material transactions with the company are recorded in the notes to the consolidated group accounts.

Under IAS19 Southend Care Ltd must account for the net surplus or deficit arising from its share of the pension assets and liabilities in respect of its employees who are members of the Essex County Council Pension Fund. As at 31 March 2020 there was a net deficit of £4.920M (*£5.772M restated as at 31 March 2019*) in respect of Southend Care Limited's pension liabilities. As at 31 March 2020 Southend Care Ltd also had a retained surplus of £0.361M (*£0.036M retained surplus at 31 March 2019*) in respect of its Profit and Loss reserve. Southend-on-Sea Borough Council undertakes to provide continuing financial support to enable the financial statements of Southend Care Ltd to be prepared on a going concern basis.

Given the nature of the two companies, and the fact that they substantially only work to provide services to the Council, in the event of failure of a company the Council would need to secure the continuance of service provision through other means. In such an eventuality, it would mean that any pension deficit would simply transfer from group to the single entity at that point.

Southend-on-Sea Borough Council has joint control of Porters Place Southend-on-Sea LLP, together with Swan BQ Limited, a wholly owned subsidiary of Swan Housing Association, with the purpose to regenerate the Queensway Estate and surrounding environs. All transactions with the partnership are recorded in the notes to the consolidated group accounts.

Note 45. Contingent Liabilities

The Council has no contingent liabilities.

HOUSING REVENUE ACCOUNT

HRA INCOME AND EXPENDITURE STATEMENT

2018/19 £000		2019/20 £000
	Income	
(25,715)	Dwelling Rents (Gross)	(25,467)
(1,477)	Non Dwelling Rents (Gross)	(1,527)
(1,027)	Charges for Services and Facilities	(567)
(343)	Revaluation Gains (to reverse previous impairment charges)	(159)
(28,562)	Total Income	(27,720)
	Expenditure	
5,409	Repairs and Maintenance	5,623
6,379	Supervision and Management	6,646
873	Rents, Rates, Taxes and other Charges	749
75	Provision for Bad and Doubtful Debts	262
6,535	Depreciation and impairment on Council Dwellings	7,870
209	Depreciation and impairment on Other Assets	217
26	Debt Management Expenses	24
19,506	Total Expenditure	21,391
(9,056)	Net cost of HRA services as included in the whole authority Comprehensive Income and Expenditure Account	(6,329)
191	HRA services share of Corporate and Democratic Core	196
(8,865)	Net Cost of HRA Services	(6,133)
(811)	(Profit) on Sale of HRA Long Term Assets	(906)
3,489	Interest Payable and Similar Charges	3,392
(445)	General Grants	(5)
(313)	Interest Receivable	(386)
(6,945)	(Surplus) / Deficit for the year on HRA services	(4,038)

MOVEMENT ON THE HRA BALANCE

This Statement takes the outturn on the HRA Income and Expenditure Account and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

2018/19 £000		2019/20 £000
(6,945)	Surplus for the year on the Housing Revenue Account Income And Expenditure Account	(4,038)
2,813	Net additional amount required by statute to be credited to the HRA Balance for the year	4,506
4,132	Transfer to Earmarked Reserves	(468)
0	Decrease/(Increase) in the Housing Revenue Account Balance	0
(3,502)	Housing Revenue Account - Balance Brought Forward	(3,502)
(3,502)	Housing Revenue Account - Balance Carried Forward	(3,502)

CALCULATION OF MOVEMENT ON THE HRA BALANCE

2018/19 £000		2019/20 £000
	Amounts included in the HRA Income And Expenditure Account but required by statute to be excluded when determining the Movement on the HRA Balance for the year	
811	Profit on Sale of HRA Long Term Assets	906
732	General Grants / Service Grants	204
	Amounts not included in the HRA Income And Expenditure Account but required to be included by statute when determining the Movement on the HRA Balance for the year	
48	Transfer to/(from) Capital Adjustment Account - Impairment	(1,222)
(168)	Transfer (from) Capital Adjustment Account - REFCUS	(208)
1,390	Revenue Contribution to Capital	4,826
4,132	Transfer to/(from) Earmarked Reserves	(468)
6,945	Net Additional Amount required to be credited to the Housing Revenue Account Balance for the year	4,038

NOTES TO THE HRA

HRA Note 1. Analysis of Housing Stock

	Number of Properties 31 March 2020	Number of Properties 31 March 2019
Houses And Bungalows	2,093	2,082
Flats	3,804	3,804
Total Houses and Flats	5,897	5,886
Homelessness Hostel Bedsits - Room only	123	123
	6,020	6,009

HRA Note 2. Major Repairs Reserve

The Reserve consists of depreciation charged to the HRA transferred to the account via the Capital Adjustment Account, against which is charged any allowable statutory mitigation. The balance on the reserve is available to fund future capital expenditure within the HRA.

	2019/20 £000	2018/19 £000
Balance at 1 April	7,362	6,989
Transfers In	6,706	6,449
Used To Fund Capital (Council Dwellings)	(5,929)	(6,076)
Balance at 31 March	8,139	7,362

HRA Note 3. Depreciation

Depreciation – a charge for depreciation has also been made covering dwellings. The useful economic life for Dwellings, other buildings and non-operational assets are in accordance with the componentisation policy and in line with those shown in note 21. The Major Repairs Allowance (MRA) is matched against the cost of depreciation. Land is not depreciated due to having an indefinite life.

	2019/20 £000	2018/19 £000
Item 8 Debit		
<u>Depreciation</u>		
Council Dwellings	6,492	6,240
Other Assets	214	209
<u>Impairment</u>		
Council Dwellings	1,378	295
Other Assets	3	0
Total Depreciation and Impairment	8,087	6,744
Debt Management Expenses	24	26
Loan Interest Payable	3,392	3,489
Item 8 Credit		
Interest Receivable	(386)	(313)
<u>Revaluation Gains</u>		
Council Dwellings	(159)	(343)
Other Assets	0	0
Appropriation To/(From) Capital Adjustment Account - Impairment	(1,222)	48
Appropriation (From) Capital Adjustment Account - REFCUS	(208)	(168)
Net Effect On HRA	9,528	9,483

HRA Note 4. Property, Plant and Equipment

The Fixed Assets for the Housing Revenue Account are shown in the table below.

The assets are shown at existing use value to reflect the fact that they are used for social housing and are less than market value.

The Open Market Value (OMV) of Council dwellings at 1 April 2019 amounted to £738.1M. It should be noted that the difference between the vacant possession value, or the OMV above, and the balance sheet value of dwellings within the HRA show the economic cost to Government of providing Council housing at less than market value.

	Council Dwellings	Other Land & Buildings	Assets Under Construction	Non- Operational Investment Properties	Total
	£000	£000	£000	Restated £000	£000
Gross Book Value as at 31 March 2019	386,563	9,979	2,193	1,042	399,777
Accumulated Depreciation as at 31 March 2019	(22,061)	(840)	0	0	(22,901)
Net Book Value as at 31 March 2019	364,502	9,139	2,193	1,042	376,876
Additions	12,588	22	220		12,830
Disposals	(1,283)				(1,283)
Transfers	2,435		(2,351)		84
Revaluations via Revaluation Reserve	3,482				3,482
Revaluations recognised in I&E	(1,219)			(3)	(1,222)
<u>Depreciation</u>					
For Current Year	(6,492)	(214)			(6,706)
On Disposals	87				87
Transfers	(8)				(8)
Revaluations	(3)				(3)
Impairments					0
Gross Book Value as at 31 March 2020	402,566	10,001	62	1,039	413,668
Accumulated Depreciation as at 31 March 2020	(28,477)	(1,054)	0	0	(29,531)
Net Book Value as at 31 March 2020	374,089	8,947	62	1,039	384,137

HRA Note 5. Capital Expenditure

	2019/20 £000	2018/19 £000
Purchase or enhancement of Council Dwellings	12,830	8,665
REFCUS	208	168
Total HRA Capital Expenditure	13,038	8,833
<u>Financed by:-</u>		
Usable Capital Receipts	2,070	754
Total Financed By Capital Receipts	2,070	754
<u>Revenue contributions:-</u>		
General Reserves	4,826	1,390
Major Repairs Reserve	5,929	6,076
Third Party	213	613
Capital Grant	0	0
Total Revenue Contributions	10,968	8,079
Total Capital Expenditure	13,038	8,833

THE COLLECTION FUND

THE COLLECTION FUND

2018/19 £000 Council Tax	2018/19 £000 NNDR	2018/19 £000 Total		2019/20 £000 Council Tax	2019/20 £000 NNDR	2019/20 £000 Total	Collection Fund Note
INCOME							
94,094	0	94,094	Income from Council Tax	99,600	0	99,600	1
0	44,901	44,901	Income Collectable from Business Ratepayers adjusted for Transitional Payment Protection payable	0	43,417	43,417	2
94,094	44,901	138,995	Total Income	99,600	43,417	143,017	
EXPENDITURE							
Precepts and Demands							
76,621	0	76,621	Southend-on-Sea Borough Council	81,177	0	81,177	
9,738	0	9,738	Essex Police Authority	11,274	0	11,274	
4,055	0	4,055	Essex Fire Authority	4,233	0	4,233	
Business Rates							
0	21,397	21,397	Payments to Government	0	21,567	21,567	
0	428	428	Payments to Fire Authority	0	431	431	
0	20,969	20,969	Payments to Southend-on-Sea Borough Council	0	21,135	21,135	
0	233	233	Costs of Collection	0	228	228	
Doubtful Debt and Appeals Provisions							
339	(160)	179	Top-up of Doubtful Debt Provision	73	(69)	4	
267	469	736	Write-off of Debt	769	478	1,247	
0	1,819	1,819	NNDR Provision for Appeals	0	2,360	2,360	
0	(642)	(642)	NNDR Settlement of Appeals	0	(1,114)	(1,114)	
91,020	44,513	135,533	Total Expenditure	97,526	45,016	142,542	
USE OF BALANCES							
Council Tax							
2,500	0	2,500	Southend-on-Sea Borough Council	2,500	0	2,500	
315	0	315	Council Tax - Essex Police Authority	317	0	317	
140	0	140	Council Tax - Essex Fire Authority	132	0	132	
Business Rates							
0	(685)	(685)	Government	0	151	151	
0	(672)	(672)	Southend-on-Sea Borough Council	0	149	149	
0	(13)	(13)	Essex Fire Authority	0	3	3	
119	1,758	1,877	(Deficit) / Surplus for the year	(875)	(1,902)	(2,777)	
COLLECTION FUND BALANCE							
9,881	(1,675)	8,206	Balance brought forward at 1 April	10,000	83	10,083	
119	1,758	1,877	(Deficit)/Surplus for the year (as above)	(875)	(1,902)	(2,777)	
10,000	83	10,083	Balance Carried Forward at 31 March	9,125	(1,819)	7,306	
ALLOCATED TO:							
0	41	41	Government	0	(910)	(910)	
1,192	0	1,192	Police Authority	1,058	0	1,058	
435	1	436	Fire Authority	394	(18)	376	
8,373	41	8,414	Southend-on-Sea Borough Council	7,673	(891)	6,782	
10,000	83	10,083	Balance Carried Forward at 31 March	9,125	(1,819)	7,306	

NOTES TO THE COLLECTION FUND

Collection Fund Note 1 Income from Council Tax

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands using estimated 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Essex Police Authority, Essex Fire Authority and Southend-on-Sea Borough Council for the forthcoming year and dividing this by the Council Tax Base. The basic amount for a Band D property (£1,695.33 for the Leigh-on-Sea Town Council area and £1,647.63 for all other parts of the Borough) is multiplied by the proportion specified for the particular band to give an individual amount due.

The amount per band is as follows:

Valuation Band	Range of Values	Council Tax 2019/20 Leigh-on-Sea Town Council Area	Council Tax 2019/20 All other parts of the Borough	Ratio to Band D
	£	£	£	
A	Up to and including 40,000	1,130.22	1,098.42	6/9
B	40,001 - 52,000	1,318.59	1,281.49	7/9
C	52,001 - 68,000	1,506.96	1,464.56	8/9
D	68,001 - 88,000	1,695.33	1,647.63	1
E	88,001 - 120,000	2,072.07	2,013.77	11/9
F	120,001 - 160,000	2,448.81	2,379.91	13/9
G	160,001 - 320,000	2,825.55	2,746.05	15/9
H	More than 320,000	3,390.66	3,295.26	18/9
Band D		2018/19	2019/20	% increase
		£	£	
Southend-on-Sea Borough Council		1,322.82	1,382.22	4.49
Essex Police Authority		169.02	192.96	14.16
Essex Fire Authority		70.38	72.45	2.94
Other than Leigh-on-Sea Town Council Area		1,562.22	1,647.63	5.47
Leigh-on-Sea Town Council		46.89	47.70	1.73
Leigh-on-Sea Town Council Area		1,609.11	1,695.33	5.36

The number of chargeable dwellings for Council Tax in each Valuation Band (adjusted for dwellings where discounts apply) for the year was as follows:

	Number of Dwellings	Ratio	Equivalent Number of Dwellings
Valuation Band - A*	7.55	5/9	4.19
Valuation Band - A	10,310.65	6/9	6,873.77
Valuation Band - B	11,988.28	7/9	9,324.22
Valuation Band - C	20,105.21	8/9	17,871.30
Valuation Band - D	11,116.78	9/9	11,116.78
Valuation Band - E	6,102.01	11/9	7,458.00
Valuation Band - F	3,419.24	13/9	4,938.90
Valuation Band - G	1,473.13	15/9	2,455.22
Valuation Band - H	94.50	18/9	189.00
	64,617.35		60,231.38
Less:			
Adjustment for Collection of Rates and anticipated changes during the year for successful Appeals against Valuation Banding, New Properties, Demolitions, Disabled Persons Relief and Exempt Properties.			1,806.94
* Reductions For Band A Disabled.			
Council Tax Base			58,424.44

Collection Fund Note 2 Non-Domestic Rates

Non-Domestic Rates are organised on a national basis. The Government specified an amount of 50.4p in 2019/20 (49.3p in 2018/19) with a small business rate of 49.1p in 2019/20 (48.0p in 2018/19) and, subject to the effects of transitional arrangements, local businesses pay rates that are calculated by multiplying their rateable value by that amount.

The Council is responsible for collecting rates due from the ratepayers in its area but pays 50% of the proceeds over to the Government for onward redistribution in line with need. The Council retains 49% of the proceeds, with the final 1% being passed over to Essex Fire Authority.

After relief and provisions, the Non-Domestic Rates income collectable was £43,858,439 for 2019/20 (£43,181,926 for 2018/19). The year-end rateable value for the Council's area was £121,737,278 at 31 March 2020 (£121,874,588 at 31 March 2019).

Collection Fund Note 3 Provisions for Non-collection and NNDR Appeals

Within the Collection Fund there are the following provisions.

- A provision of £3.324M as at 31 March 2020 for bad and doubtful debts for Council Tax (£3.251M as at 31 March 2019)
- A provision of £0.565M as at 31 March 2020 for bad and doubtful debts for NNDR (£0.634M as at 31 March 2019). Under business rate retention arrangements, 49% of this provision is attributable to the Council.
- A provision of £5.500M as at 31 March 2020 for the potential impact of successful appeals by businesses against their rateable values (£4.253M as at 31 March 2019). Under business rate retention arrangements, 49% of this provision is attributable to the Council.

Collection Fund Note 4 Collection Fund Balance

The Community Charge Collection Fund was closed at 31 March 2007 and any income received after this date has been included in the Council Tax Collection Fund. The balance of £9.125M on the Council Tax Collection Fund is split between Essex Police Authority, Essex Fire Authority and this Council, in proportion to the value of the respective precept demands made by the three authorities on the Collection Fund and will be reflected in future year's Council Tax.

Under business rates retention, the deficit balance of £1.819M on the NNDR Collection Fund is split between Central Government, Essex Fire Authority, and this Council, in the statutory proportions 50%, 1% and 49% respectively.

	31 March 2020 £000	31 March 2019 £000
Council Tax - Southend-on-Sea Borough Council	7,673	8,373
Council Tax - Essex Police Authority	1,058	1,192
Council Tax - Essex Fire Authority	394	435
NNDR - Southend-on-Sea Borough Council	(891)	41
NNDR - Government	(910)	41
NNDR - Essex Fire Authority	(18)	1
Total	7,306	10,083

Shown on Balance Sheet as:	31 March 2020 £000	31 March 2019 £000 Restated
Collection Fund Adjustment Account	6,782	8,413
Creditors Falling Due Within One Year	524	1,670
Debtors	0	0
Total	7,306	10,083

THE GROUP ACCOUNTS

INTRODUCTION

Many local authorities now provide services through partner organisations which operate under the control of the Council.

The Code requires that, where a Council has material financial interests and a significant level of control over one or more entities, it should prepare Group Accounts.

Southend-on-Sea Borough Council has reviewed the relationships it has with its partner organisations to determine the scope of the Council Group.

WHOLLY OWNED COMPANIES

As at 31 March 2020, the Council had six wholly owned companies that it considers to fall within the legal definitions of group accounts. These are:

- South Essex Homes Limited
- Southend Care Ltd
- Southend Trading Corporation Limited
- Southend Independent Living Limited
- Southend Housing Limited, and
- Southend Business Services Limited

Southend-on-Sea Borough Council established an Arm's Length Management Organisation registered as South Essex Homes Limited on 16 May 2005 and transferred responsibility for the management of its housing stock to the company on 24 October 2005. South Essex Homes Limited has no share capital, is limited by guarantee and is controlled by the Council. The Council is committed to meet all accumulated deficits or losses.

Southend Care Ltd is a company that has been established to deliver a range of adult social care services previously provided by the Council directly. The Council transferred several its provider services to the company as at 1 April 2017.

Southend Trading Corporation Limited is a company that was established to exploit the Council's telephony assets by selling surplus capacity to the public and private sectors. It has ceased trading as at 31 March 2015.

Southend Independent Living was primarily an internet trading company providing innovative and useful items that can assist in everyday life. It has ceased trading as at 31 March 2018.

Southend Housing Limited and Southend Business Services Limited have yet to trade.

Of the six companies, only South Essex Homes Limited and Southend Care Limited traded at a material level during the year, and therefore are the only companies subject to consolidation.

JOINT VENTURES

The Council participates in six joint ventures, where it has a significant level of control. These are:

- PSP Southend LLP
- Porters Place Southend-on-Sea LLP
- LHCS and Southend Travel Partnership Limited
- Southend-on-Sea Forum Management Limited
- Airport Business Park Southend Management Ltd
- Sustainable Motion CIC

PSP Southend LLP is a vehicle through which the Council is able to redevelop surplus assets. It is jointly controlled with a partner company PSP Facilitating Limited (formerly BV Strategies Facilitating Ltd) on a 50:50 basis. Some assets have been formally transferred to the LLP, and it holds options on others.

Porters Place Southend-on-Sea LLP is the 30-year partnership with Swan Housing Association and their wholly owned subsidiary Swan BQ Limited, with the purpose to regenerate the Queensway Estate and surrounding environs. The partnership is exercised by the Council being a member of Porters Place Southend-on-Sea LLP, where it holds a 50% stake, pursuant to a Limited Partnership Agreement dated 24 April 2019.

LHCS and Southend Travel Partnership Limited was incorporated on 5th July 2019 and has been established as a vehicle through which the Council can provide passenger transport. The company is a partnership between Southend-on-Sea

Borough Council and London Hire Community Services and the Council has a 49% holding. The company commenced trading on 1 March 2020.

Southend-on-Sea Forum Management Limited has been established as a vehicle through which The Forum Southend-on-Sea is managed. The Forum Southend-on-Sea is a partnership between Southend-on-Sea Borough Council, the University of Essex, and South Essex College. The Forum Southend-on-Sea is also the home of the Focal Point Gallery. The Council has equal voting rights as the other two partners.

Airport Business Park Southend Management Ltd has been established as a vehicle through which the Airport Business Park will be managed. The company is a partnership between Southend-on-Sea Borough Council and Henry Boot Limited. The Council has a majority shareholding. The company has yet to trade in a meaningful way.

Sustainable Motion CIC is a not for profit charitable company established to promote sustainable transport options. It has ceased trading as at 31 March 2019.

For all six joint ventures, the Council's proportions of net assets are immaterial to the accounts and therefore have not been consolidated into the group accounts, with the exception of Porters Place Southend-on-Sea LLP which has been consolidated into the group accounts for the period 23 April 2019 to 31 March 2020. This joint venture is not yet material in a quantitative sense but will become so as the years progress and has been deemed material in a qualitative sense as Better Queensway is the largest housing and regeneration project the Council has undertaken since the 1960's.

Trust Funds

The Council is responsible for administering several trust funds. These funds are not Council assets, so they are not included in the Council's own balance sheet. The Council prepares the accounts for these trusts which are subject to audit or examination in accordance with the requirements of the Charity Commission.

At the 31 March 2020, the Council was sole trustee of eight trust funds. Although the Council would require the agreement of the Charity Commission to alter the aims and objectives of the Charities, or indeed to dispose of any charity assets, the Council does have significant control over the day to day operations.

The purpose of each trust fund is set out below:

Beecroft Art Trust

The promotion of the study of art, music and literature and in particular, but without prejudice to the generality of the foregoing, the provision and maintenance of the Beecroft Art Gallery at Southend-on-Sea in the County of Essex as a public art gallery and library.

Jones Memorial Recreation Ground Trust

The provision and maintenance of a recreation ground for the benefit of children and young persons who have not reached the age of 25 years and are resident in the borough of Southend-on-Sea, without distinction of political, religious or other opinions.

The Palace Theatre Charity

The Palace Theatre was conveyed to the Council by Mrs GE Mouillot in a deed of gift as an expression of her interest and goodwill towards the then County Borough Council.

The Theatre is used for the general benefit of the inhabitants of Southend-on-Sea.

Prittlewell Priory Museum Trust

To provide a museum for the general benefit of the inhabitants of Southend-on-Sea.

Priory Park Trust

To be dedicated, held, used and enjoyed as and for the purposes of a public park for the benefit of the inhabitants of the Borough of Southend-on-Sea and the recreation of the public area.

The Shrubbery Trust

For the enjoyment of the public as an open space under the Open Spaces Act 1906.

Victory Sports Ground Trust

A public park to be known as the "Victory Sports Ground" for the benefit of the inhabitants of the Borough of Southend-on-Sea and the recreation of the public.

Youth Commemoration Ground Trust

The provision and maintenance of a recreation ground for the benefit of children and young persons who have not reached the age of 25 years and are resident in the Borough of Southend-on-Sea.

The assets of these trusts were donated by individuals to provide facilities for the good of the local community.

GROUP ACCOUNTING POLICIES

South Essex Homes Limited, Southend Care Limited, Porters Place Southend-on-Sea LLP and the Trust Fund accounting policies are consistent with the Group accounting policies with the following exception:

The Group accounting policy is that Cash and Cash Equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. South Essex Homes Limited's accounting policy is that cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours and cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Group Balance Sheet, the figures for Short Term Investments and Cash and Cash Equivalents have been aligned to the Group accounting policy.

RESTATEMENTS

The 2018/19 accounts for South Essex Homes Limited and Southend Care Limited has been restated to reflect immaterial adjustments of £0.303M and £0.259M respectively to the starting position of the pension fund disclosures to reflect the McCloud and Sargeant judgements concerning the introduction of career average revalued earnings. The Council's accounts were adjusted for this in 2018/19.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2018/19 Restated			2019/20		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
86,205	(74,758)	11,447	84,256	(69,344)	14,912
29,993	(14,082)	15,911	30,434	(16,413)	14,021
20,995	(6,336)	14,659	17,048	(5,554)	11,494
117,658	(67,102)	50,556	116,865	(71,227)	45,638
7,181	(5,094)	2,087	9,435	(5,205)	4,230
22,536	(2,339)	20,197	22,472	(2,966)	19,506
79,182	(37,397)	41,785	84,489	(38,891)	45,598
363,750	(207,108)	156,642	364,999	(209,600)	155,399
22,388	(31,421)	(9,033)	20,635	(30,094)	(9,459)
22,388	(31,421)	(9,033)	20,635	(30,094)	(9,459)
386,138	(238,529)	147,609	385,634	(239,694)	145,940
		32,747			(1,474)
		12,391			13,844
		(142,007)			(153,648)
		50,740			4,662
		(26)			24
		50,714			4,686
		Surplus or Deficit on Revaluation of Property, Plant and			
		(31,955) Equipment Assets			12,341
		(34,683) Actuarial gains / losses on Pension Assets / Liabilities			(23,755)
		(66,638)			(11,414)
		(15,924)			(6,728)

GROUP MOVEMENT IN RESERVES

	Usable Reserves £000	Unusable Reserves £000	Total Group Reserves £000
Balance at 31 March 2018	146,523	350,736	497,259
Movement in Reserves during 2018/19 Restated			
Opening Adjustment	8	(8)	0
(Deficit) on the Provision of Services	(50,714)	0	(50,714)
Other Comprehensive Income and Expenditure	0	66,638	66,638
Total Comprehensive Income and Expenditure	(50,706)	66,630	15,924
Adjustments between accounting basis and funding basis under regulations	65,708	(65,708)	0
Net Increase before Transfers to reserves	15,002	922	15,924
Transfers to / from Earmarked Reserves	0	0	0
Increase in 2018/19	15,002	922	15,924
Balance at 31 March 2019 Restated	161,525	351,658	513,183
Movement in Reserves during 2019/20			
(Deficit) on the Provision of Services	(4,686)	0	(4,686)
Other Comprehensive Income and Expenditure	0	11,414	11,414
Total Comprehensive Income and Expenditure	(4,686)	11,414	6,728
Adjustments between accounting basis and funding basis under regulations	12,913	(12,913)	0
Net Increase before Transfers to reserves	8,227	(1,499)	6,728
Transfers to / from Earmarked Reserves	0	0	0
Increase in 2019/20	8,227	(1,499)	6,728
Balance at 31 March 2020	169,752	350,159	519,911

GROUP BALANCE SHEET

31 March 2019		31 March 2020
£000		£000
Restated		
787,133	Property, Plant & Equipment	798,673
42,007	Heritage Assets	33,051
41,892	Investment Property	41,570
8,205	Intangible Assets	8,801
28,428	Long Term Investments	27,624
2,173	Long Term Debtors	2,351
909,838	Long Term Assets	912,070
22,764	Short term Investments	59,531
0	Assets Held for Sale	0
9	Inventories	924
32,182	Short Term Debtors	42,739
51,879	Cash and Cash Equivalents	45,451
106,834	Current Assets	148,645
(8,856)	Short Term Borrowings	(1,514)
(40,678)	Short Term Creditors	(46,732)
(4,439)	Provisions	(5,386)
(53,973)	Current Liabilities	(53,632)
(4,061)	Long Term Creditors	(2,298)
(268,962)	Long Term Borrowing	(318,859)
(165,211)	Other Long Term Liabilities - Pensions	(155,308)
(11,282)	Other Long Term Liabilities - Other	(10,707)
(449,516)	Long Term Liabilities	(487,172)
513,183	Net Assets	519,911
161,525	Usable Reserves	169,752
351,658	Unusable Reserves	350,159
513,183	Total Reserves	519,911

GROUP CASH FLOW STATEMENT

2018/19 £000 Restated	2019/20 £000
50,714 Net Deficit on the Provision of Services	4,686
Adjustments to Net Surplus or Deficit on the Provision of Services for non- (75,246) cash Movements	(37,142)
Adjustments for items included in the Net Surplus or Deficit on the Provision 6,299 of Services that are Investing and Financing Activities	37,937
(18,233) Net cash flows from Operating Activities	5,481
30,687 Investing Activities	43,655
(32,292) Financing Activities	(42,708)
(19,838) Net Increase or Decrease in Cash and Cash Equivalents	6,428
(32,041) Cash and Cash Equivalents at the beginning of the Reporting Period	(51,879)
(51,879) Cash and Cash Equivalents at the end of the Reporting Period	(45,451)

NOTES TO THE GROUP ACCOUNTS

The notes have only been produced where they are materially different to the notes supplied with the Council's primary statements, or where it adds significant contextual information.

Group Note 1 Details of Subsidiary Companies and Joint Venture

South Essex Homes Limited – Company registration number 05453601

Southend Care Limited – Company registration number 10138562

Porters Place Southend-on-Sea LLP - Company registration number OC427026

Group Note 2 Financial Performance

Subsidiary Companies

	2019/20			2018/19		
				Restated	Restated	
	South Essex Homes Ltd	Southend Care Ltd	Total	South Essex Homes Ltd	Southend Care Ltd	Total
	£000	£000	£000	£000	£000	£000
Income	(12,115)	(7,955)	(20,070)	(11,330)	(6,580)	(17,910)
Expenditure	10,499	8,442	18,941	12,111	7,080	19,191
Current Assets	7,146	1,323	8,469	7,536	1,155	8,691
Current Liabilities	(4,370)	(962)	(5,332)	(5,254)	(754)	(6,008)
Long Term Liabilities	(5,866)	(4,920)	(10,786)	(7,633)	(6,137)	(13,770)
Net Assets	(3,090)	(4,559)	(7,649)	(5,351)	(5,736)	(11,087)
Usable Reserves	2,776	361	3,137	2,282	36	2,318
Unusable Reserves	(5,866)	(4,920)	(10,786)	(7,633)	(5,772)	(13,405)
Total Reserves	(3,090)	(4,559)	(7,649)	(5,351)	(5,736)	(11,087)

The negative unusable reserves of both companies represent the deficits of their pension schemes. The Council provides a guarantee to both companies so that they can continue to be regarded as going concerns.

Joint Ventures

	2019/20 23 April 2019 to 31 March 2020 Porters Place Southend-on-Sea		2018/19 Porters Place Southend-on-Sea	
	LLP - 50% £000	Total £000	LLP 50% £000	Total £000
Income	0	0	0	0
Expenditure	5	5	0	0
Current Assets	1,018	1,018	0	0
Current Liabilities	(273)	(273)	0	0
Long Term Liabilities	(750)	(750)	0	0
Net Assets	(5)	(5)	0	0
Usable Reserves	(5)	(5)	0	0
Unusable Reserves	0	0	0	0
Total Reserves	(5)	(5)	0	0

Trust Funds

2019/20	Beecroft Art Gallery £000	Jones Memorial Trust £000	Palace Theatre Charity £000	Prittlewell Priory Museum Trust £000	Priory Park Trust £000	The Shrubbery Trust £000	Victory Sports Ground Trust £000	Youth Commemoration Ground Trust £000	Total Trusts £000
Income	(178)	(45)	(79)	(157)	(141)	(57)	(31)	(335)	(1,023)
Expenditure	178	44	85	306	159	6	31	481	1,290
Property, Plant & Equipment	375	24	1,187	599	663	0	10	11,586	14,444
Heritage Assets	1,969	0	0	2,174	0	0	0	0	4,143
Investment Property	0	0	0	0	84	482	0	0	566
Other Current Assets	1	130	1	7	1	438	1	3,293	3,872
Other Liabilities	(1)	0	(1)	0	(1)	(1)	(1)	(3)	(8)
Net Assets	2,344	154	1,187	2,780	747	919	10	14,876	23,017
Usable Reserves	0	130	0	606	0	437	0	3,290	4,463
Unusable Reserves	2,344	24	1,187	2,174	747	482	10	11,586	18,554
Total Reserves	2,344	154	1,187	2,780	747	919	10	14,876	23,017

2018/19	Beecroft Art Gallery £000	Jones Memorial Trust £000	Palace Theatre Charity £000	Prittlewell Priory Museum Trust £000	Priory Park Trust £000	The Shrubbery Trust £000	Victory Sports Ground Trust £000	Youth Commemoration Ground Trust £000	Total Trusts £000
Income	(173)	(29)	(261)	(157)	(366)	(39)	(28)	(268)	(1,321)
Expenditure	173	29	2,905	306	156	22	28	(19)	3,600
Property, Plant & Equipment	375	24	1,192	627	681	0	10	11,862	14,771
Heritage Assets	1,969	0	0	2,295	0	0	0	0	4,264
Investment Property	0	0	0	0	84	482	0	0	566
Other Current Assets	1	129	1	8	1	387	0	3,163	3,690
Other Liabilities	(1)	0	(1)	(1)	0	(1)	0	(3)	(7)
Net Assets	2,344	153	1,192	2,929	766	868	10	15,022	23,284
Usable Reserves	0	129	0	634	0	386	0	3,160	4,309
Unusable Reserves	2,344	24	1,192	2,295	766	482	10	11,862	18,975
Total Reserves	2,344	153	1,192	2,929	766	868	10	15,022	23,284

Group Note 3 Intercompany transactions

South Essex Homes Limited

The Council paid fees of £5.781M to South Essex Homes Limited for the management of its housing stock, together with £2.018M in respect of other services.

The Council provides several services for its subsidiary for which South Essex Homes Limited paid £1.915M. These transactions have been removed from the Group Comprehensive Income and Expenditure Statement.

Southend Care Limited

The Council paid fees of £7.750M to Southend Care Limited for the provision of adult social care services.

The Council provides several services for its subsidiary for which Southend Care Limited paid £0.065M. These transactions have been removed from the Group Comprehensive Income and Expenditure Statement.

Porters Place Southend-on-Sea LLP

The Council paid £0.750M to Porters Place Southend-on-Sea LLP as drawdowns from the Junior Loan Facility pursuant to the Partnership Agreement.

Porters Place Southend-on-Sea LLP paid £0.050M as a contribution to the Council's costs of managing the Better Queensway project.

These transactions have been removed from the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement as appropriate.

Trust Accounts

The Trusts generate little or no income in their own right. As such the Council provides either free services or a direct operating subsidy, by way of a grant. In addition, the Council paid interest on cash balances held. In total the Council supported the operation of the Trusts by £0.826M in 2019/20. These transactions have been removed from the Group Comprehensive Income and Expenditure Statement

All intra company debtor and creditor balances in the individual entities primary statements have been removed from the Group Balance Sheet.

Group Note 4

Property, Plant and Equipment

The Property, Plant and Equipment line of the Group Balance Sheet is materially different from the single entity's Balance Sheet on page 37. The categories of asset affected are as follows:

	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000
Movements in 2019/20		
Cost or Valuation as at 1 April 2019	302,712	15,961
Additions	3,945	2,224
Revaluations via Revaluation Reserve	(4,863)	0
Revaluations recognised in the CIES	(1,975)	(19)
Disposals	(158)	(509)
Transfers	(513)	0
Gross Book Value as at 31 March 2020	299,148	17,657
Accumulated Depreciation as at 1 April 2019	(12,603)	(6,373)
Depreciation	(6,616)	(1,401)
Written out to Revaluation Reserve	0	0
Written out to the CIES	0	0
On Disposals	12	509
On Transfers	70	0
Accumulated Depreciation as at 31 March 2020	(19,137)	(7,265)
Net Book Value as at 1 April 2019	290,109	9,588
Net Book Value as at 31 March 2020	280,011	10,392

	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000
Movements in 2018/19		
Cost or Valuation as at 1 April 2018	330,390	15,092
Additions	3,669	1,540
Revaluations via Revaluation Reserve	17,758	(177)
Revaluations recognised in the CIES	(9,882)	(170)
Disposals	(34,090)	(157)
Transfers	(5,133)	(167)
Gross Book Value as at 31 March 2019	302,712	15,961
Accumulated Depreciation as at 1 April 2018	(14,912)	(5,419)
Depreciation	(5,104)	(1,234)
Written out to Revaluation Reserve	4,158	177
Written out to the CIES	1,903	0
On Disposals	1,385	57
On Transfers	(33)	46
Accumulated Depreciation as at 31 March 2019	(12,603)	(6,373)
Net Book Value as at 31 March 2018	315,478	9,673
Net Book Value as at 31 March 2019	290,109	9,588

Group Note 5 Heritage Assets

The Heritage Assets line of the Group Balance Sheet is significantly different from the single entity's Balance Sheet on page 37. The categories of asset affected are as follows:

	Historic Seaside Assets £000	Heritage Land & Buildings £000	Antiques & Collectable £000	Museum Collections £000	Total Heritage Assets £000
Movements in 2019/20					
Cost or Valuation as at 1 April 2019	36,414	5,577	2,865	1,557	46,413
Additions	2,636	0	0	0	2,636
Revaluations via Revaluation Reserve	(13,799)	(4)	0	0	(13,803)
Revaluations recognised in the CIES	(264)	0	0	0	(264)
Gross Book Value as at 31 March 2020	24,987	5,573	2,865	1,557	34,982
Accumulated Depreciation as at 1 April 2019	(2,960)	(1,446)	0	0	(4,406)
Depreciation	(461)	(151)	0	0	(612)
Written out to Revaluation Reserve	3,085	2	0	0	3,087
Written out to the CIES	0	0	0	0	0
Accumulated Depreciation as at 31 March 2020	(336)	(1,595)	0	0	(1,931)
Net Book Value as at 1 April 2019	33,454	4,131	2,865	1,557	42,007
Net Book Value as at 31 March 2020	24,651	3,978	2,865	1,557	33,051

	Historic Seaside Assets £000	Heritage Land & Buildings £000	Antiques & Collectables £000	Museum Collections £000	Total Heritage Assets £000
Movements in 2018/19					
Cost or Valuation as at 1 April 2018	35,730	5,577	2,865	1,557	45,729
Additions	1,393	0	0	0	1,393
Revaluations via Revaluation Reserve	0	0	0	0	0
Revaluations recognised in the CIES	(709)	0	0	0	(709)
Gross Book Value as at 31 March 2019	36,414	5,577	2,865	1,557	46,413
Accumulated Depreciation as at 1 April 2018	(2,361)	(1,283)	0	0	(3,644)
Depreciation	(599)	(163)	0	0	(762)
Written out to Revaluation Reserve	0	0	0	0	0
Accumulated Depreciation as at 31 March 2019	(2,960)	(1,446)	0	0	(4,406)
Net Book Value as at 31 March 2018	33,369	4,294	2,865	1,557	42,085
Net Book Value as at 31 March 2019	33,454	4,131	2,865	1,557	42,007

Group Note 6 Defined Benefit Pension Schemes

Alongside the Council, South Essex Homes and Southend Care participates in the Local Government Pension Scheme (LGPS) administered by Essex County Council. The nature of the scheme is set out in full in note 37 to the single entity accounts, and this note should be read in conjunction with that. The tables below set out where the Group Accounts are materially different from the single entity balance sheet.

Transactions relating to post-employment benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The following transactions have been made in the Group Comprehensive Income and Expenditure Statement and the Statement of Funds / General Fund Balance via the Movement in Reserves Statement during the year:

	2019/20 £000	2018/19 £000 Restated
Comprehensive Income and Expenditure Statement		
Cost of Services		
Current Service Cost	21,259	19,424
(Gain) / Loss from Settlement	(2,015)	(3,469)
Cost of Curtailments	1,132	5,864
Administration Expense	161	200
Financing and Investment Income and Expenditure		
Net Interest Expense	3,909	4,483
Total post-employment benefit charged to the surplus or deficit on the provision of services	24,446	26,502
Other post-employment benefit charged to the comprehensive income and expenditure statement		
Return on plan assets in excess of interest	39,351	(26,962)
Other actuarial gains on assets	(2,003)	0
Change in financial assumptions	(63,489)	30,659
Change in demographic assumptions	(5,121)	(37,727)
Experience gain on defined benefit obligation	7,506	0
Remeasurements and Other Comprehensive Income	(23,756)	(34,030)
Total post-employment benefit (credited) / charged to the Comprehensive Income and Expenditure Statement	690	(7,528)
Movement in Reserves Statement		
Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the code	(690)	7,528
Actual amount charged against the General Fund Balance for Pensions in the year		
Employer's contributions payable to scheme	10,593	9,818

Pension Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the group's obligation in respect of its defined benefit plan is as follows:

Actuarial Gains/(Losses)	2019/20 £000	2018/19 £000 Restated
Present Value of the defined benefit obligation	647,571	685,326
Fair Value of Plan Assets	(492,263)	(520,115)
Net Liability arising from defined benefit obligation	155,308	165,211

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	2019/20 £000	2018/19 £000 Restated
Opening Balance at 1 April	685,326	674,909
Current Service Cost	21,259	19,424
Interest Cost	16,329	16,875
Contributions by Scheme Participants	3,827	3,575
Remeasurement Gains and Losses		
Actuarial gains / losses arising from changes in demographic assumptions	(5,121)	(37,727)
Actuarial gains / losses arising from changes in financial assumptions	(63,489)	30,659
Other	7,506	0
Losses on Curtailments	1,132	5,864
Benefits Paid	(21,038)	(19,786)
Liabilities extinguished on Settlements	1,840	(8,467)
Closing Balance at 31 March	647,571	685,326

Reconciliation of fair value of the scheme assets

Local Government Pension Scheme assets

The estimated asset allocation as at 31 March is as follows:

	2019/20 £000	2018/19 £000 Restated
Opening Balance at 1 April	520,115	492,352
Interest Income	12,420	12,392
The return on plan assets, excluding the amount included in the net interest expense	(39,351)	26,962
Other Actuarial Gains	2,003	0
Employer Contributions	10,593	9,818
Contributions by Scheme Participants	3,827	3,575
Benefits Paid	(21,038)	(19,786)
Payment of Bulk Transfer Value	3,855	(4,998)
Administrative Expense	(161)	(200)
Closing Balance at 31 March	492,263	520,115

Impact on the Council's Cash Flows

The Group anticipates paying a £15.619M contribution to the scheme in 2020/21.

Group Note 7

Accounts

The financial accounts of South Essex Homes Limited can be obtained from the Chair of the Board, South Essex Homes Limited, Floor 3, Civic Centre, Victoria Avenue, Southend-on-Sea, Essex, SS2 6ER.

The financial accounts of Southend Care Limited can be obtained from the Chair of the Board, Southend Care Limited, Civic Centre, Victoria Avenue, Southend-on-Sea, Essex, SS2 6ER.

The financial accounts of Porters Place Southend-on-Sea LLP can be obtained from Swan BQ Limited, Pilgrim House, High Street, Billericay, Essex, CM12 9XY.

The financial accounts of the Trusts can be obtained from the Executive Director (Finance and Resources), Southend-on-Sea Borough Council, PO Box 6, Civic Centre, Victoria Avenue, Southend-on-Sea, Essex, SS2 6ER.

ADDITIONAL FINANCIAL INFORMATION

MEMBERS' ALLOWANCES (UNAUDITED)

Councillors' Allowances		Basic Allowances £	Special Allowances £	Travel & Subsistence £	Total £
Elected Councillors					
Arscott	B	970.35	242.59	0.00	1,212.94
Aylen	S	9,179.28	0.00	0.00	9,179.28
Ayling	B	9,179.28	5,671.51	0.00	14,850.79
Beck	B	8,378.74	0.00	0.00	8,378.74
Borton	M	9,179.28	2,241.46	0.00	11,420.74
Boyd	H	9,179.28	1,941.43	0.00	11,120.71
Bright	A	9,179.28	831.64	0.00	10,010.92
Buck	K	9,179.28	546.58	51.90	9,777.76
Buckley	S	970.35	0.00	0.00	970.35
Burton	L	9,179.28	0.00	0.00	9,179.28
Burzotta	D	9,179.28	71.26	0.00	9,250.54
Byford	T	970.35	1,072.97	0.00	2,043.32
Chalk	A	9,179.28	0.00	0.00	9,179.28
Collins	P	8,378.74	2,015.86	0.00	10,394.60
Courtenay	J	970.35	1,705.83	0.00	2,676.18
Cowan	D	8,378.74	399.33	0.00	8,778.07
Cox	T	9,179.28	10,165.65	0.00	19,344.93
Davidson	M	9,179.28	2,752.87	0.00	11,932.15
Dear	A	9,179.28	0.00	0.00	9,179.28
Dent	M	9,179.28	0.00	0.00	9,179.28
Evans	K	8,378.74	0.00	0.00	8,378.74
Evans	M	9,179.28	285.06	0.00	9,464.34
Flewitt	M	9,179.28	4,094.49	0.00	13,273.77
Folkard	N	9,179.28	529.09	0.00	9,708.37
Garne	D	9,179.28	0.00	0.00	9,179.28
Garston	D	9,179.28	6,682.59	0.00	15,861.87
Garston	J	970.35	194.07	0.00	1,164.42
George	S	9,421.87	0.00	0.00	9,421.87
Gilbert	I	9,179.28	28,245.36	-33.32	37,391.32
Habermel	S	9,179.28	71.26	0.00	9,250.54
Hadley	R	970.35	582.21	0.00	1,552.56
Harp	T	9,179.28	9,638.47	120.05	18,937.80
Holland	A	970.35	339.63	20.25	1,330.23
Hooper	B	8,378.74	0.00	0.00	8,378.74
Jarvis	D	9,179.28	2,002.10	0.00	11,181.38
Jones	A	9,179.28	9,590.86	0.00	18,770.14
Kelly	M	8,378.74	0.00	0.00	8,378.74
Lamb	J	9,179.28	15,745.89	84.45	25,009.62
McDonald	H	9,179.28	4,599.32	0.00	13,778.60
McGlone	D	9,179.28	1,156.18	0.00	10,335.46
McMahon	J	970.35	0.00	-16.66	953.69
Mitchell	K	8,378.74	0.00	0.00	8,378.74
Moring	A	9,179.28	7,653.67	30.60	16,863.55
Mulroney	C	9,179.28	10,218.55	0.00	19,397.83
Nelson	D	9,179.28	546.58	0.00	9,725.86
Nevin	C	9,179.28	3,386.62	0.00	12,565.90
Norman	D	970.35	0.00	0.00	970.35
Phillips	G	970.35	0.00	0.00	970.35
Robinson	K	9,179.28	11,002.85	0.00	20,182.13
Salter	L	9,179.28	7,653.67	0.00	16,832.95
Shed	I	8,378.74	296.59	0.00	8,675.33
Stafford	M	9,179.28	2,015.86	0.00	11,195.14
Terry	M	9,179.28	9,745.94	0.00	18,925.22
Thompson	D	8,378.74	0.00	0.00	8,378.74
Van Looy	P	8,413.39	361.00	0.00	8,774.39
Wakefield	S	8,378.74	0.00	0.00	8,378.74
Walker	C	9,179.28	0.00	0.00	9,179.28
Ward	N	9,179.28	7,899.92	0.00	17,079.20
Wexham	P	9,179.28	70.52	58.60	9,308.40
Willis	C	9,179.28	0.00	0.00	9,179.28
Woodley	R	9,179.28	14,004.09	628.65	23,812.02
Co-opted Members					
Clarke	A	0.00	0.00	0.00	0.00
Everitt	R	0.00	396.75	0.00	396.75
Lusty	E	0.00	0.00	0.00	0.00
Morgan	J	0.00	1,147.33	0.00	1,147.33
Pandya	K	0.00	1,143.57	0.00	1,143.57
Rickett	M	0.00	0.00	0.00	0.00
Tetley	J	0.00	1,147.33	0.00	1,147.33
Watts	T	0.00	273.85	0.00	273.85
Total		469,318.08	192,380.25	944.52	662,642.85

ABBREVIATIONS and GLOSSARY

ABBREVIATIONS

ALMO	Arm's Length Management Organisation
CIPFA	Chartered Institute of Public Finance and Accountancy
DfE	Department for Education
DSG	Dedicated Schools Grant
HRA	Housing Revenue Account
IFRS	International Financial Reporting Standard
LLP	Limited Liability Partnership
LGPS	Local Government Pension Scheme
MRA	Major Repairs Allowance
MRICS	Member of the Royal Institute of Chartered Surveyors
MRP	Minimum Revenue Provision
MRR	Major Repairs Reserve
NNDR	National Non-Domestic Rates (Business Rates)
NPV	Net Present Value
OMV	Open Market Value
PWLB	Public Works Loan Board
REFCUS	Revenue Expenditure Financed From Capital Under Statute
SEH	South Essex Homes Limited
SOLACE	Society of Local Authority Chief Executives
TPA	Teachers' Pension Agency
UEL	Useful Economic Life
VAT	Value Added Tax
VFM	Value For Money

GLOSSARY

Accounting Period	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local Council accounts. The end of the accounting period is the balance sheet date.
Accounting Statements	The Council's Core Financial Statements, Notes and Supplementary Financial Statements.
Accrual	A sum included in the final accounts attributable to the accounting period but for which payment has yet to be made or income received.
Accumulating Absences Account	Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. In local authorities, annual leave, flexitime, and time in lieu would usually be accumulating. Accumulating absences are typically earned by employees as they provide services. The Government has issued regulations which mean that the Council is only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.
Actuary	A suitably qualified independent consultant employed to advise the Council upon the financial position of the Pension Fund.
Amortisation	Amortisation is the writing down of costs to the Comprehensive Income and Expenditure Statement over a number of years.
Appropriations	Appropriations are the transfer of resources between, to and from the various reserves.
Asset	An item having value measurable in monetary terms. Assets can either be defined as non-current or current. A non-current asset has use and value for more than one year whereas a current asset (e.g. inventory or short-term debtors) can readily be converted into cash.
Audit of Accounts	An independent examination of the Council's accounts to ensure that the relevant legal obligations, accounting standards and codes of practice have been followed.
Balance Sheet	A financial statement that summarises the Council's assets, liabilities, and other balances at the end of the accounting period.
Billing Authority	A local authority such as Southend-on-Sea Borough Council charged by statute with responsibility for the collection of and accounting for Council Tax and non-domestic rates (NNDR; business rates).
Budget	A budget is a financial statement that expresses a Council's service delivery plans and capital investment programmes in monetary terms, covering the financial year.
Budget Requirement	The estimated revenue expenditure on general fund services that needs to be financed from the Council tax after deducting income from fees and charges, certain specific grants, and any funding from reserves. It is referred to by the Minister for Local Government when deciding the criteria for capping Council revenue expenditure.
Capital Charges	A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services, such as depreciation.

Capital Expenditure	(or capital spending) – Section 40 of the Local Government and Housing Act 1989 defines 'expenditure for capital purposes'. This includes spending on the acquisition of assets either directly by the Council or indirectly in the form of grants to other persons or bodies. Expenditure that does not fall within this definition must be charged to a revenue account.
Capital Financing	The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, direct revenue financing, usable capital receipts, capital grants, capital contributions and revenue reserves.
Capital Investment Programme	The capital schemes the Council intends to carry out over a specified period.
Capital Receipt	The proceeds from the disposal of land and other assets, so long as the amount is £10,000 or more. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government. They cannot be used for revenue purposes without Secretary of State approval.
CIPFA	Chartered Institute of Public Finance and Accountancy. The principal accountancy body dealing with local government finance.
Collection Fund	A separate fund maintained by a billing authority that records the expenditure and income relating to Council Tax and non-domestic rates, along with payments to precepting authorities, the national pool of non-domestic rates and its own general fund.
Community Assets	Assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions in their disposal. Examples of community assets are parks and historical buildings.
Comprehensive Income and Expenditure Statement	An account which summarises resources generated and consumed in the provision of services.
Consistency	The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.
Contingent Liability	A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Alternatively, a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of that obligation cannot be measured with sufficient reliability.
Council Tax	The main source of local taxation to local authorities. Council Tax is levied on households within its area by the billing Council and the proceeds are paid into its Collection Fund for distribution to precepting authorities and for use by its own General Fund.
Council Tax Benefit	Assistance provided by billing authorities to adults on low incomes to help them pay their Council Tax bill. The cost to authorities of Council Tax benefit is largely met by government grant.
Creditor	Amounts owed by the Council for works done, goods received, or services rendered before the end of the accounting period but for which payments have not been made by the end of that accounting period.
Debtor	Amounts due to the Council for works done, goods received, or services rendered before the end of the accounting period but for which payments have not been received by the end of that accounting period.

Depreciation	The measure of the cost of the benefits of a non-current asset which have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of the asset whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.
Dedicated Schools Grant (DSG)	Grant funding system for schools through specific grant.
Events after the Balance Sheet Date	Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue. Also referred to as Post Balance Sheet Events.
Exceptional Items	Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence so that the financial statements give a true and fair view.
External Audit	The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
Finance Lease	A lease which transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee, which is treated in the Government's capital control system as a credit arrangement as if it were like borrowing. The value of the asset is held on the Council's Balance Sheet
Financial Instruments	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.
Financial Regulations	A written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative procedures, and budgeting systems.
General Fund	The main revenue fund of a billing Council. Day-to-day spending on services is met from the fund. Spending on the provision of Council Dwellings, however, must be charged to a separate Housing Revenue Account.
Gross Expenditure	The total cost of providing the Council's services before taking into account income from government grants and fees and charges for services.
Housing Benefits	A system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central Government.
Housing Revenue Account (HRA)	A separate, statutory account inside the General Fund which includes the expenditure and income arising from the provision of housing accommodation by the Council acting as landlord.
Infrastructure Assets	Non-current assets belonging to the Council which do not necessarily have a resale value (e.g. highways).
Internal Audit	An independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates, and reports on the adequacy of internal control as a contribution to the proper, economic, efficient, and effective use of resources.

International Financial Reporting Standard (IFRS)	International Financial Reporting Standards cover particular aspects of accounting practice, and set out the correct accounting treatment, for example, of depreciation. Compliance with these standards is mandatory and any departure from them must be disclosed and explained. The standards originated in the commercial sector and some are not directly relevant to local authority accounts.
Inventory	These comprise one or more of the following categories: goods or other assets purchased for resale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion; long term contract balances and finished goods.
Minimum Revenue Provision (MRP)	This is the amount to be set aside for the repayment of debt. Each local Council has a general duty to make an MRP charge to its revenue account each year, which it considers to be prudent.
National Non-Domestic Rate (NNDR)	A standard rate in the pound set by the Government payable on the assessed rateable value of properties used for business purposes. Also known as Non-Domestic or Business rates.
Net Expenditure	Gross expenditure less specific service income.
Non-Operational Assets	Fixed assets held by the Council but not directly occupied, used, or consumed in the delivery of services. Examples are investment properties or assets surplus to requirements, pending sale or redevelopment.
Operating Lease	A type of lease, usually of computer equipment, office equipment, furniture, etc. which is like renting and therefore represents a revenue cost. Ownership of the asset remains with the lessor.
Operational Assets	Non-current assets held and occupied, used, or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.
Outturn	Actual income and expenditure in a financial year.
Pension Fund	An employees' pension fund maintained by a Council, or group of authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing Council, the employee and investment income.
Precept	The levy made by Precepting authorities on billing authorities, e.g. Southend-on-Sea Borough Council. The major precepting authorities are Essex Police Authority and Essex Fire Authority. The Leigh-on-Sea Town Council also raise money by means of a precept on the billing authority.
Public Works Loan Board (PWLB)	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities can borrow a proportion of their requirements to finance capital spending from this source, subject to them being able to afford the interest and principle repayments.
Provision	An amount set aside for liabilities or losses that are certain to arise but owing to their inherent nature cannot be quantified with absolute certainty.
Prudential Code	The Prudential Code, introduced in April 2004, sets out the arrangements for capital finance in local authorities. It constitutes 'proper accounting practice' and is recognised as such by statute.
Rateable Value	The annual assumed rental value of a property that is used for business purposes.

Revenue Expenditure Financed from Capital under Statute (REFCUS)	Capital expenditure which may be properly treated as such, but which does not result in, or remain matched with, tangible fixed assets. An example of REFCUS would be capital expenditure on improvement grants.
Reserves	The accumulation of surpluses and deficits over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council.
Revenue Support Grant	A grant paid by the Government to Councils, contributing towards the costs of their services, as opposed to specific grants, which may only be used for a specific purpose.
Section 31 Grants	A grant issued by a Minister of State under Section 31 of the Local Government Act 2003.
Specific Grants	The term used to describe all government grants – including supplementary and special grants – to local authorities that are to be used for a particular purpose, as opposed to non-service specific grants such as revenue support grant.
Subjective Analysis	This is an analysis of income or expenditure according to type. Such expenditure headings are wages and salaries, capital charges, building maintenance, consumable materials. On the income side, the examples are government grant, fees, and charges.
Supplementary Financial Statements	Additional financial statements comprising the Housing Revenue Account and Collection Fund. Together with the Core Financial Statements comprise the Council's Accounting Statements.
Temporary Investment	Money invested for a period of less than one year.
Trust Funds	Funds administered by the Council for such purposes as charities and specific projects usually resulting from individual legacies and donations.
Value for Money (VFM)	A term that describes a service or product that demonstrates a good balance between its cost, quality, and usefulness to the customer. A VFM audit considers the economy, efficiency and effectiveness of a Council service, function, or activity.

ANNUAL GOVERNANCE STATEMENT

ANNUAL GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

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

In discharging this overall responsibility, the Council is responsible for ensuring the proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk, are in place. This responsibility extends to satisfying itself that there are robust governance arrangements between the Council and its subsidiaries.

The Council has approved and adopted an updated Local Code of Governance (the Code) in December 2019, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Council's code is part of the Council's Constitution and is available on the Council's website or can be obtained from the Corporate Strategy Team, Civic Centre, Victoria Avenue, SS2 6ER.

This Annual Governance Statement explains how the Council has complied with the Code and also meets the requirements of Section 6 of the Accounts and Audit Regulations 2015 (England) in relation to the production and publication of an Annual Governance Statement.

THE PURPOSE OF THE ANNUAL GOVERNANCE STATEMENT

The governance framework comprises the systems, processes, culture, and values, by which the Council is directed and controlled and its activities through which it is accountable 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 services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an 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 being realised and the impact should they be realised and to manage them efficiently, effectively and economically.

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

THE COUNCIL'S GOVERNANCE FRAMEWORK

The governance framework ensures the Council's ambition and desired outcomes are effectively promoted and progressed through its corporate governance arrangements and business planning processes. The key elements of the governance framework are as follows:

Community participation, including co-design/production with citizens

- Customer satisfaction
- Consultation and engagement
- Complaints, compliments, and comments

Outcome based business planning and strategy

- Decision making / constitution
- Policy framework and procedures
- Performance management, including data quality
- Risk management, whistleblowing
- Business continuity
- Information management security
- Contract management
- Project management
- Change / transformation management

Outcome based financial planning and reporting, budgetary control, and treasury management

- Commissioning
- Procurement
- Asset Management
- Fraud & Corruption and Insurance
- Value for Money

Workforce management and development

- Values and behaviours - codes of conduct for members and staff
- Staff performance management
- Health and safety
- Ethical governance

These areas form the main sources of assurance to be considered in any review of the Council's governance arrangements.

The Chief Executive has the responsibility for overseeing the implementation and monitoring of 'The Code', through a process which includes:

- Regular reports to the Corporate Management Team (CMT) and the Audit Committee which set out:
 - weaknesses identified in the governance arrangements and
 - any corrective action necessary to resolve concerns identified;
- An annual review of the governance framework undertaken by the officer Good Governance Group;
- An annual report to the Corporate Management Team and the Audit Committee on the adequacy of governance arrangements; and
- An annual review of 'The Local Code of Governance', with any significant amendments being reported to the Audit Committee, endorsed by Cabinet and approved by Council.

The Council's key governance and business planning processes are also subject to audit on a risk basis. Such work completed during the year forms part of the evidence in support of the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's system of internal control.

Key elements of the Local Code of Governance are outlined below:

The Council's Monitoring Officer is responsible for the maintenance of the Constitution and for reviewing its relevance and effectiveness, ensuring that it is always fit for purpose. Any changes to the Constitution are approved by full Council. Minor changes can also be made to the Constitution by the Chief Executive in consultation with the Group Leaders and the Monitoring Officer.

The Council operates a Leader and Cabinet model of governance, with the Leader (who is appointed by Full Council for a four-year term) appointing up to 9 other Councillors to form the Cabinet. Cabinet is responsible for most functions of the Council within the budget and policy framework set by full Council. Executive decisions are taken by the Cabinet collectively or by officers acting under delegated powers, depending upon the significance of the decision being made. For urgent issues, a chief officer can take a decision in consultation with the relevant portfolio holder.

The Council has three Scrutiny Committees which review and scrutinise proposed decisions in their respective areas of responsibility – People, Place and Policy & Resources. The committees review and scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions. In accordance with the Health and Social Care Act 2012, the People Scrutiny Committee also scrutinises health matters.

Decisions made by the Cabinet may be called in to a Scrutiny Committee in accordance with the provisions of the Scrutiny Procedure Rules. A decision made by Cabinet can be called in by any two councillors with written notice given to the Chief Executive within five working days from the date of publication of the digest.

The Council operates a pre-Cabinet scrutiny system where scrutiny and opposition councillors are given opportunities to contribute to and offer advice on key decisions prior to consideration by Cabinet. This is achieved by reports to Scrutiny Committees and the outcomes of cross party working groups.

The Council has a Standards Committee to promote and maintain high ethical standards of conduct for elected and co-opted committee members. A key role of the Committee is to help oversee the councillors' Code of Conduct and to monitor the effectiveness of the councillors' Code of Conduct. The Standards Committee also deals with formal complaints against councillors.

The Council operates a development and training programme for councillors to help support them in their strategic roles.

A local authority has a duty to ensure that it is fulfilling its responsibility for adequate and effective risk management, control, and governance. To this end, the Council has in place an Audit Committee. The Audit Committee has a key role in overseeing and assessing the risk management, control, and corporate governance arrangements and advising the governing body on the adequacy and effectiveness of these arrangements.

The Council's major policy objectives and priorities are outlined in the 'Road Map to 2023', which outlines the ambition for the borough to 2050, five related themes and the 23 desired outcomes for 2023.

The Road Map is underpinned by five strategic delivery plans, each overseen by a member of the Corporate Management Team and 23 Outcome Delivery plans, each led by members of the Senior Leadership Network. Reports outlining progress against key areas of performance are monitored by the Corporate Management Team, Cabinet and Scrutiny Committees

Regular financial monitoring reports providing explanations of variance from budget and a projected outturn are also considered by Cabinet and the Scrutiny Committees. A five year Medium Term Financial Plan is refreshed annually and shaped by the priorities agreed by the Council. The Council has also developed a new Financial Sustainability Strategy providing a 10 year horizon. The Council's annual budget process is subject to engagement, consultation, and scrutiny by all interested stakeholders. Formal public Scrutiny Committees take place at the end of January, prior to consideration by Cabinet and decision by full Council on the overall budget package in February. This enables a robust, costed, and balanced, budget to be set. The overall budget development and approval arrangements complies with

good practice, and helps to ensure that the Council remains financially resilient.

The Council operates a four year **capital programme**, with the application of a 'gateway review' process to enable items on a reserved list to be subject to further consideration before being included in the programme. This, among other things, enables consideration of levels of required resourcing to be applied to projects in line with the capacity of the organisation and support for a more outcome focussed approach.

The Corporate Risk Register is reviewed regularly by the Corporate Management Team, and by the Cabinet every six months. Project risk and departmental risk registers are reviewed by service area management teams.

The Council engages with its communities within a participation, consultation and engagement framework that harnesses co-design and asset based community development principles, with outputs integrated into business planning and delivery.

The Council has a Health and Safety Policy, with an accompanying action plan that is reviewed each year and overseen by the Strategic Health and Safety Group, chaired by a Deputy Chief Executive. This has assisted the Council in reaching Level 5 (out of 5) diamond award on the RoSPA (Royal Society for the Prevention of Accidents) Quality Safety Award assessment.

A complaints procedure and a whistle-blowing policy are maintained and kept under review to enable issues to be raised by public, staff, councillors, and co-opted Members, when they feel appropriate standards have not been met. A report analysing complaints, comments and compliments is submitted to Cabinet and Council annually.

Role of the Chief Financial Officer

The Chief Financial Officer (CFO) occupies a key position in managing the Councils' finances and ensuring that resources are used wisely to secure positive results. To support the post holder in the fulfilment of their duties, and ensure that the Council has access to effective financial advice, in 2016 the Chartered Institute of Public Finance Accountants (CIPFA) issued an updated statement on the Role of the Chief Financial Officer in Local Government. The statement:

- Sets out how the requirements of legislation and professional standards should be fulfilled by CFOs in the carrying out of their role; and
- Includes five key principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations and the organisational arrangements needed to support them.

These principles are:

- The CFO in a local authority is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and aligned with the authority's overall financial strategy;
- The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively;
- The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose; and
- The CFO in a local authority must be professionally qualified and suitably experienced.

The Council has the necessary arrangements and procedures in place which ensure that these principles are complied with. This is through a combination of direct compliance by the CFO and, where not directly complied with, ensuring there are alternative procedures in place to make sure that the necessary outcomes and objectives are still achieved and suitable controls are in place. For example, this may include deputising arrangements and delegated authority for financial management in the clearance of relevant reports to councillors.

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 Leadership Group; work undertaken by the Good Governance Group; the Head of Internal Audit's annual report; by comments made by external auditors and other external agencies and inspectorates. The Council has also made a commitment to undertake a comprehensive evidenced based self-assessment against each of the 17 standards contained within the new CIPFA Financial Management Code.

The last few weeks of 2019/20 were dominated by the Council's preparations for managing the Covid19 crises, which has had such a fundamental impact on day to day life, national public policy and the governance, services, and finances of all local authorities. The Council's civil contingency arrangements were put into effect in the run up to national lockdown from 23 March 2020, and has continued and adapted since, aligning to Government requirements and the Essex Resilience Forum operations.

The Council's Gold command and Silver tactical groups, along with collaborative working with partners, oversaw an unprecedented mobilisation of council, partner, and community resources to meet the crises. This included: supporting lockdown enforcement; supporting health and care sectors in managing hospital and care service demand; providing food and essential provisions for the most clinically vulnerable; providing housing for all rough sleepers in the borough; supporting school closures and on-going pupil education; undertaking an intensive communications programme to residents, stakeholders and the wider world and supporting local businesses by processing government grants and loans. This was implemented within weeks, while continuing to operate the range of other services that remained open and while enabling nearly all staff to work effectively remotely and be re-deployed when required.

Decision making processes for urgent matters and routine business that would normally go to Cabinet or Committee (known as the Standing Order 46 process) were adapted and took effect from the start 2020/21. This included provision for consultation on such matters with all group leaders, not just the relevant Cabinet member/s. In addition, the process for holding virtual committee meetings was agreed and put into effect.

Preparations began on considerations for the 'recovery phase' and moving to a 'new normal' of operations, initially with the Council's Cabinet members and CMT and then engaging the wider senior leadership, staff, and residents. There is an expectation that processes for decision making, the ways of working, the shape of services and the financial resources available to the council will be fundamentally different moving forward. However, the Council's response will help drive its programme of fundamental change to deliver its ambition and desired outcomes.

After a period of majority Conservative administration from 2017-19, a **joint administration** of Labour, Independent and Liberal Democrat councillors was formed following the May 2019 elections. The new administration's priorities were incorporated into the Council's Road Map to 2023. These included: a greater emphasis on new housing opportunities; the green agenda; integrated transport; proactively managing the street scene; a revised approach to parking; enhancing the skills of local people; tackling inequalities and making the Council more financially sustainable and commercially minded.

The new administration sought to enhance the role of councillors in leading delivery of the desired outcomes. Measures to do so included the rationalisation of 12 **Cabinet Working Parties** in July 2019, to be based around the seven new portfolios. The working parties were re-cast to enable Cabinet members to work more collegiately with cross party colleagues, focussing their efforts on policy objectives in a more pro-active way than had been the case previously. In addition, a review of the Council's Protocol on member/officer relations was

undertaken, the findings of which will now be considered in the new municipal year.

A major revision to **senior management arrangements** was undertaken in July 2019 to provide the capacity needed to meet councillors' ambitions, the desired increase in pace of decision making and delivery and to spearhead the cultural transformation required. These changes were designed to move away from a traditional hierarchy, with multiple organisational layers, to a more matrix form of management across functional areas, applying the lowest appropriate delegation, with greater flexibility and focus on empowerment and accountability. Executive Directors are expected to take a corporate lead on creating the right conditions and culture for outcome delivery as well as lead their services.

The new arrangements saw the Corporate Management Team (CMT) move from:

Chief Executive; two Deputy Chief Executives (Place and People) and three Strategic Directors (Transformation, Finance and Resources; Legal and Democratic Services) to:

Chief Executive; Deputy Chief Executive and Executive Director (Growth and Housing); and Executive Directors for Neighbourhoods and Environment; Children and Public Health; Adults and Communities; Transformation; Finance and Resources and Legal and Democratic Services.

Additional capacity was added at director level for housing, property and ICT, with the Director of Digital and ICT reporting to the Executive Director, Transformation, and further capacity built into the ICT service, including a fundamental revision of the approach of the ICT service and restructure of the shape and focus of the team, in recognition of the need to maximise the importance of technology in transforming the way the Council does business.

The new structure means it is more common to have a range of grades reporting into managers, helping to ensure some key operational services (highways, open spaces, and street scene) are closer to the senior management team.

The Council's Transforming Together programme was progressed to move the organisational culture to one that can deliver the desired outcomes by being more agile, efficient, more entrepreneurial, and more engaged with residents and customers. This included:

- Embedding the Council's refreshed set of **values and behaviours** through a new staff appraisal process (introducing 'annual performance conversations');
- A re-vamped **staff induction** programme;
- Launch of a **Knowledge Hub** on-line training and development portal enabling staff to access over 2000 learning resources over 55 areas;
- A staff led revision of the council's approach to **reward and recognition**;

- Progressing agile working through a '**worklife**' programme, using agile project methodology, more flexible work arrangements, providing creative workspaces, video conferencing, hot desking, remote working and providing a service design 'lab' to help creative thinking and minimise hierarchical and practical constraints;
- A new **service design** team supported the council in harnessing agile and co-design principles, ensuring the end user is involved in design challenges. This approach was used in relation to special educational needs, senior management administration support, councillor enquiries and the Council's approach to dropped kerbs, among others;
- Progressing the Southend 2050 outcomes through an ongoing programme of engagement with staff and stakeholders. Building on a partnership summit in February 2019, this took the form of a '**Test, Learn and Challenge**' fortnight in September. This included an ideas marketplace and summit, to review, challenge and contribute to business proposals. All services conducted their own team challenge to examine how they contribute to the 2050 outcomes and ambition, what they could do differently or stop doing. This was followed up, with a '**Test, Learn & Collaborate**' summit in January with staff and partners identifying co-delivery partners and key milestones through to 2023 and onto 2028 in delivering the desired outcomes.

As part of the approach to **simple and effective governance**, the four new **governance boards**, focussing on: Investment; Commissioning; Growth & Infrastructure and Innovation & Design began operating. The latter two evolved into more of a forum/space for consideration of projects/ proposals, although all four are likely to be subject to further review in the light of experience. The **Good Governance Group** of senior managers was revised to encompass information management, cyber security and civil contingency to review the Council's governance arrangements to assess whether they are fit for purpose, and ensure that sufficient assurance is available to support the production of the Annual Governance Statement. The **Local Code of Governance** was revised in November 2019 to reflect the Council's current governance arrangements.

The Commissioning Board progressed the revised **commissioning framework** to move the Council to become a more outcome based commissioning organisation, although this is recognised as an area for further work.

Work started on developing a programme for service managers, '**Getting to Know Your Business**' which looks to ensure managers have a better understanding of their service areas in terms of: performance; finances; value for money; citizen insight with a view to supporting a more **outcome based investment** approach. The programme will also seek to highlight and complement leadership development, promoting commercial

awareness and a better understanding of business acumen.

A revised approach was taken towards securing long term financial sustainability and more effective medium term business and financial planning. This included agreeing a fully funded **integrated set of outcome focussed revenue budget initiatives and capital investment priorities** as part of the Council's budget development.

In addition, **revenue and capital budget performance reports** to Cabinet and Scrutiny Committees were given greater prominence with their own separate reports (rather than being incorporated into the previous monthly performance report). The reports highlight any major variations from approved spending and capital plans for the year, enabling more pro-active financial management. They complement a new Outcomes Success measures report, considered by each meeting cycle of Cabinet and Scrutiny.

An updated **Medium Term Financial Strategy (MTFS)** (2020/21 – 2024/25), agreed as part of the Council's budget package, provided an integrated view of the whole of the Council's finances and priority investment plans over the medium term in meeting increasing demand for priority services, aligned to the ambition, phased priorities and commitments of Southend 2050.

A new high level long term **Financial Sustainability Strategy** (2020-30) was developed to frame the financial future and intentions for the Council. It helps set the context for the MTFS and guides the Council's approach to maximising resources, prioritising investment, and the effective targeting of resources to deliver the ambition and outcomes. It outlines the Council's approach, desire, and commitment to achieving financial sustainability by embracing the area's economic potential, growing the local tax base, and increasing sustainable income capabilities.

The introduction of a **Safeguarding Southend Strategic Leadership Group**, a strategic partnership board, made up of the key statutory agencies (police, CCG, Council, and independent advisor) proved successful. The Group determines local safeguarding arrangements and replaces the previous Adults and Children's Boards. New Southend safeguarding partnerships for children's and adults now report into the strategic **Safeguarding Southend Strategic Leadership Group**, with a remit to provide leadership on policy and practice.

Ofsted undertook a full inspection of the Council's **Children's Services** in July 2019. The inspection focused all areas of statutory children's social work services and early help services delivered by the Council. It did not inspect the work of partners. The inspectors stated that services for children in Southend require improvement to be good across all areas, as was the case at the last inspection in 2016. The report stated that:

"While senior leaders have made significant progress in some areas in improving the quality of practice,

despite a challenging local context, there is more work to do. Leaders have concentrated heavily on strengthening the 'front door' multi-agency response to contacts and referrals, planning for children in need and services for vulnerable adolescents, following learning from a joint inspection. These services are now highly effective".

While the 2016 inspection found the service required improvement in 12 areas, the 2019 inspection found a need for required improvement in four. A revised Strategic Children's Services Improvement Plan has been put in place and is being overseen and implemented by the Children's Services Improvement Board, a Cabinet/councillor working group, the service and safeguarding partners. The Improvement Board is chaired by the Leader and attended by senior Officers, Lead Member, opposition Children's lead and the chair of safeguarding Partnership along with an Independent external expert.

A cross-Council working group led by the Director for Regeneration and Growth and reporting to CMT, co-ordinated the Council's response to **Brexit** preparations – particularly in the event of a 'no-deal'. The arrangements made were closely aligned with those of the Essex Resilience Forum and the Government's Operation Yellowhammer. These included updating civil contingency and business continuity arrangements, putting in place new arrangements for regulatory services, assessing and mitigating changes to EU funded projects, ensuring Council policies reflected new legislation and guidance, keeping residents informed, supporting local business and promoting the EU Settlement Scheme.

The cross party **Shareholder Board**, formed to oversee the governance of the Council's companies and joint ventures, chaired by the Leader and reporting to Cabinet, continued to meet. It received the accounts and business plans of South Essex Homes; Southend-on-Sea Forum Management Ltd (a zero profit joint venture between the University of Essex, the Council and South Essex College set up to manage the property of The Forum) and Porters Place Southend-on-Sea LLP, joint venture formed to regenerate the Queensway estate.

A new Partnership and Member Agreement was adopted to govern the relationship between the Council and **South Essex Homes (SEH)**. The Partnership Agreement is more output based and encompasses the SEH commercial subsidiary, South Essex Property Services (SEPS), as a party so there is a single point of contractual reference. The Member Agreement is intended to encapsulate the parent/subsidiary relationship between the Council and SEH, but does not cover SEPS.

Chairs of the Community Safety Partnership, Safeguarding Boards and Health and Wellbeing Board, along with related colleagues and partners from the Police, Social Care and Health continued to meet to promote communication between the strands and ensure a co-ordinated approach to addressing complex issues.

The Council continued to play a central role in the **Association of South Essex Local Authorities (ASELA)** to seek to secure the strategic infrastructure, planning and growth required for the area. Work to shape the ask of government in terms of future investment and powers to enable delivery of the vision for South Essex was progressed.

Following the establishment of Porters Place Southend-on-Sea LLP as the joint venture partnership to progress the **Better Queensway** regeneration project, good progress was made with a launch event, two rounds of public consultation, a Housing Needs survey and approval of the Initial Business Plan by the LLP Board and its two shareholders – the Council and Swan Housing Association. This was considered by the Council's Shareholder Board before approval at Cabinet in November 2019.

The Council continued to be an active partner to the South East Local Enterprise Partnership (**SELEP**), with the Council represented by the Leader or Deputy Leader at the main (Strategic) Board, Accountability Board and investment panel, as well as the South Essex sub-board "Opportunity South Essex".

The Council acted as the accountable body for several externally funded projects operating across Southend, South Essex, and the wider South East. These include the South East Business Boost (SEBB) European Regional Development Fund programme which also received a three year extension, the Enterprise Advisor Network provision in Southend and the Construction Industry Training Board funded South Essex Construction Training Academy (SECTA).

Six reports were **called-in** from the Cabinet for review by the People Scrutiny Committee, 12 matters were called-in to the Place Scrutiny Committee and 11 reports were called-in to the Policy and Resources Scrutiny Committee. All budget items were referred directly to the three scrutiny committees as was the revised time-line for Southend 2050 and a range of other regular reports on performance, finance, risk and a Public Sector Protection Order.

Three 'in-depth' scrutiny reviews were started in the context of the Southend 2050 ambition: To review the level of domestic waste recycling and ways to achieve higher rates (Place); the appropriate use of reablement for older people when discharged from hospital (People) and Council and councillor communications with local people and stakeholders (Policy and Resources).

Progress on these reviews and Cabinet working parties was impacted by the December General Election and the onset of Covid-19 (the last cycle of scrutiny meetings and others in March 2020 were cancelled or postponed).

Mandatory e-learning for both data protection and cyber security was introduced for staff, supplemented by alternative tailored training for those for whom using an e-learning platform might not be appropriate. Recommendations from previous audits

were progressed. Policies and internal processes have been updated.

The Council's approach to cyber security was enhanced by use of a self-assessment tool, the outcome of which has informed the future operating model for ICT and digital enablement. The Council's approach to information management, data protection and cyber security was also reviewed by completing the NHS Data Security Protection Toolkit enabling assessment against Department of Health information governance policies and standards. For 2019/20 the Council was independently assessed as providing 'substantial assurance' in meeting 'standards met' compliance.

Progress on actions to enhance governance arrangements arising from the 2018/19 Annual Governance Statement were reported to Audit Committee during the year, with progress on relevant outcomes against the action.

INTERNAL AUDIT

The annual risk based Audit Plan was prepared in consultation with Directors, Deputy Chief Executives and the Chief Executive. It was developed by the Head of Internal Audit and approved by the Audit Committee. Terms of Reference and reports for specific audits are discussed with relevant Directors, Deputy Chief Executive, or the Chief Executive before being finalised, with the recommended actions required to mitigate risks summarised in an action plan.

Internal Audit revisits action plans where the original report's opinion was either Partial or Minimal assurance. These actions are retested and the results of this work is reported to the Corporate Management Team and Audit Committee as part of the Quarterly Performance Report.

The Head of Internal Audit Opinion for the year ended 31 March 2020

The Head of Internal Audit Annual Report and opinion for 2019/20 states that:

'Governance comprises of the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. Such arrangements can take many forms and still be effective. Appropriate assurance is then required that these processes are fit for purpose and being applied throughout the organisation.'

During 2019/20 the Council continued to build on the work that had been undertaken to create the shared ambition for the borough and desired outcomes for its residents, visitors, students, and other stakeholders. This has involved continuing to transform the culture, the way that the Council operates and revised governance arrangements, so that the Council develops a culture, a focus, a structure and ways of working that are most effective and appropriate to deliver the required outcomes.'

The impact of the covid-19 pandemic began to manifest itself in the latter part of the year as the Council went into emergency response mode in line with the rest of the country and most of the world. The Council's response appears to have held up well, coordinating a wide range of resources from a range of different sources to provide the support, response and management of the community to meet the requirements of the Borough as it goes through the period of lockdown. Clearly there will be a huge amount to do and further challenges as the Borough and the Council moves into recovery mode and the Council is gearing itself up to deliver and meet the multiple challenges ahead.

As a result there continues to be significant change being made to way the Council is operating. The new governance arrangements and ways of working in the current situation continue to develop and evolve, and therefore there is a need for these to have the opportunity to be properly embedded and assurance obtained that they are working effectively as intended, before they can be considered to be operating effectively. However the opportunity for a period of time in which things can begin to settle into a 'new normal' does not appear to be forthcoming very soon.

Therefore, the remainder of this report should be read within this context.

With regards to the assurance provided by audit work undertaken, in these areas, the design and operation of the Council's risk management, control and governance framework in place for the year was satisfactory overall.

No issues have come to my attention this year, other than those already disclosed, that I believe need including in the Council's Annual Governance Statement'.

The basis for forming this opinion is an assessment of:

- *the design and operation of the underpinning governance and assurance framework*
- *the range of individual opinions arising from risk based and other audit assignments that have been reported during the year taking into account the relative significance of these areas*
- *whether management properly implement actions arising from audit work completed, to mitigate identified control risks within reasonable timescales.*

The Head of Internal Audit has not reviewed all risks and assurances relating to the Council's activities in coming to his opinion.'

Compliance with Professional Standards, Head of Internal Audit Opinion.

'The Institute of Internal Auditors assessed the in-house team as fully meeting most of the Standards, as well as the Definition, Core Principles and the Code of Ethics at the last assessment undertaken (classified as "Generally Conforms", the highest rating).

Good assessments were achieved in relation to:

- reflection of the Standards
- focus on performance, risk and adding value
- quality assurance and improvement programme.

Needs improvement assessments were given in relation to:

- coordinating and maximising assurance
- the efficiency of its operations.

During 2019/20 the team has continued to deliver work using the improved approach resulting from development and implementation of the Compliance with the UK Public Sector Internal Audit Standards Action Plan arising from the assessment by the Institute of Internal Auditors. As a result the service has substantially conformed to the relevant professional standards throughout the year.

The only area where the Council has chosen not to implement the Standards relates to the appointment and removal of the Head of Internal Audit, as the Council's normal human resources practices would already mitigate this perceived potential risk.'

CONCLUSION

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Actions to be specifically addressed are outlined below.

ISSUES FOR THE ANNUAL GOVERNANCE STATEMENT

'No issues have come to our attention this year, other than those already disclosed, that we believe need including in the Council's Annual Governance Statement.'

EXTERNAL INSPECTIONS AND ASSESSMENTS

Assurance over the control environment is also obtained from external inspections and assessments of service areas. External assessments for 2019/20 included:

- 10 Ofsted primary school inspections (1 'Outstanding', 9 'Good'). The overall position at April 2020 therefore was:
 - Primary schools: 5 outstanding, 26 good, 2 requires improvement.
 - Secondary Schools: 5 outstanding, 4 good, 2 requires improvement, 1 inadequate
 - Special schools: 1 outstanding, 3 good, 1 requires improvement
 - PRU/alternative provision: 1 good, 1 requires improvement.
- Ofsted full inspection of the Council's **Children's Services** (July 2019) – requires improvement to be good.
- Adult Social care ratings:
 - Nursing homes: 10 good, 6 requires improvement (RI);
 - Residential homes: 3 outstanding, 62 good, 12 RI, 2 inadequate;
 - Domiciliary care agencies: 4 outstanding; 31 good; 7 RI; 1 inadequate.
 - Community care services: 12 good; 1 RI.

Further Actions to strengthen the Council's Governance Arrangements for 2020/21

No.	Area	Action	Date of Implementation	Responsible Officer
1.	Covid-19 relaxation, restoration, and recovery	To ensure that the Council's governance arrangements are adapted to meet the Council's response to the Covid-19 pandemic. This will include enabling remote councillor formal and informal meetings and undertaking a revision of the Council's constitution to ensure it is suitable to meet new circumstances and to help deliver the Council's ambitions and desired outcomes.	March 2021	Chief Executive
2.	Southend 2050 - Transformation	Continue to ensure the necessary skills, tools, new ways of working and right culture are in place to support the Council's workforce to deliver the ambition and desired outcomes of the 2050 Road Map and to support the Council's response to the Covid-19 pandemic.	March 2021	Executive Director, Transformation
3.	Southend 2050 – officer governance	Ensure the Council's officer governance architecture is effective, along with other governance bodies, in supporting the delivery of the 2050 programme and providing the necessary assurance in approach to that delivery to demonstrate good governance.	March 2021	Executive Director, Legal and Democratic Services
4.	Risk Management	Implement and embed the Council's updated risk management framework and approach that was approved during 2019/20.	March 2021	Head of Internal Audit

SIGNIFICANT GOVERNANCE ISSUES

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

Signed on Behalf of the Council

Alison Griffin
Chief Executive &
Town Clerk
12 August 2020

Councillor Ian Gilbert
Leader of the Council

12 August 2020

SBC Corporate Governance Actions – 2019/20 – Progress

	Governance Issue	Action 2019/20	Responsible Officer	Comment on Progress
1.	Southend 2050 - Transformation	Ensure the necessary skills, tools and techniques are in place to support the changes required in the workforce to deliver the desired outcomes of the 2050 Road Map and related strategic and outcome delivery plans.	Joanna Ruffle – Executive Director, Transformation	Progress included: <ul style="list-style-type: none"> - launch of a Knowledge Hub on-line training and development portal; - embedding a new set of values and behaviours; - a re-vamped staff induction programme; - a staff led revision of the council's approach to reward and recognition; - progressing agile working through a 'worklife' programme, using agile project methodology, more flexible work arrangements including enabling virtually all staff to work remotely; - harnessing agile and co-design principles, ensuring the end user across services, with focussed application in key service areas; - adopting fresh approaches to engage with staff and stakeholders in progressing the 2050 Ambition and outcomes.
2.	Southend 2050 - Outcome based investment	Progress the Council's work to achieve the 2050 Road Map, including moving to an outcome based investment approach to business and budget planning and management for future years.	Joe Chesterton – Executive Director – Finance & Resources	A comprehensive review of the Council's Budget development arrangements has been undertaken to provide a sustainable fully integrated revenue and capital financial plan to resource the delivery of better outcomes for local residents, businesses, and visitors. This will be complemented by our developing 'Getting to Know Your Business' programme which looks to ensure managers have a better understanding of their service areas in terms of: performance; finances; value for money; citizen insight to support a more outcome based investment approach.
3.	Governance Framework	Develop and embed the Council's new officer governance architecture (comprising the four new boards) to ensure it is effective, along with other governance bodies, in supporting the 2050 programme and provides the necessary assurance in ensuring good governance.	John Williams – Executive Director, Legal & Democratic Services	The, four new officer boards, introduced from April 2019 focussing on: investment; commissioning and innovation & design, began to operate and reporting into the CMT. These evolved during the year, in the light of practice with the growth & infrastructure and innovation & design boards becoming a forum for consideration of projects/ proposals. The revised Good Governance Group, encompassing information management and cyber security operated through the year to promote simple and effective governance. Further moves in this area are anticipated, not least in the light of the impact of Covid-19 on the Council's governance arrangements.

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Southend-on-Sea Borough Council

Agenda
Item No.

9

Report of the Executive Director (Finance and
Resources)

to

Audit Committee

on

12th August 2020

Report prepared by: Andrew Barnes, Head of Internal Audit

Audit Committee Annual Report 2019/20

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 The effective operation of the Audit Committee forms a key element of the Council's corporate governance arrangements, by providing an independent and high-level oversight on audit, assurance and reporting arrangements that underpin good governance and financial standards. By fulfilling its responsibilities, as detailed in this annual report, the Committee supports the Council to maintain a high standard of corporate governance.

2. Recommendation

- 2.1 **The Annual Report for the Audit Committee for 2019/20 be agreed and for the report be referred to the Council for information.**

3. Background

- 3.1 Although there is no statutory obligation for a local authority to establish an Audit Committee, they are widely recognised internationally across the public and private sectors as a key component of effective governance. Similarly, it is considered good practice for the Committee to report annually to the Council on its work.
- 3.2 The Audit Committee's role is set out in the Terms of Reference and is primarily to:
- provide independent assurance of the adequacy of the governance, risk management framework and internal control environment
 - oversee the financial reporting and annual governance processes
 - oversee internal and external audit, helping to ensure effective relationships exist.

- 3.3 The key benefits of having an effective Audit Committee are to:
- increase awareness regarding the effectiveness and continued development of the Council's governance arrangements
 - provide additional assurance on the robustness of the Council's governance arrangements through a process of independent and objective review
 - reduce the risks of errors, illegal or improper acts
 - increase stakeholder confidence in the objectivity and fairness of financial and other reporting
 - contribute to performance improvements in assurance levels and awareness of the need for strong internal control including the implementation of audit recommendations
 - reinforce the importance and independence of internal and external audit and similar review processes.

4. Delivery of Terms of Reference

- 4.1 To help the Committee draw conclusions about the effectiveness of the Council's internal control framework, governance and risk management it gained assurances from the following sources:

Internal Audit

- 4.2 The Accounts and Audit (England) Regulations 2015 require the Council to maintain an adequate and effective Internal Audit function. Internal Audit is a key source of independent assurance for both Members and management on the effectiveness of the control framework. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance.
- 4.3 The Committee considered and agreed reports regarding the Internal Audit Strategy, Internal Audit Charter and Annual Plan 2019/20. It has received regular progress reports on the work and performance of Internal Audit at each meeting and also obtained information from internal audit about the progress made by management in implementing audit recommendations. These reports have helped to ensure that identified weaknesses have either been addressed or the risks adequately mitigated by management to ensure that there is an effective system of governance, risk management and internal control in place.

Assurance statements and Annual Governance Statement

- 4.4 The Committee's terms of reference include advising on the effectiveness of the Council's internal controls and assurance arrangements, including the production of the Annual Governance Statement.
- 4.5 During the year, the Committee has received reports on the control environment and how the annual review and assurance process is undertaken. Members are provided with progress made on the issues raised in respect of the Annual Governance Statement and of the annual production of it through the Good Governance Group.
- 4.6 The Head of Internal Audit provides an annual report and opinion regarding the Council's control, governance and risk management framework. This opinion is considered by the Committee alongside other sources of assurance.

- 4.7 At the meeting in July 2019 the Committee reviewed the Annual Governance Statement (AGS) for 2018/19 which identified governance issues requiring further ongoing improvement or monitoring relating to:
- Southend 2050 – Transformation: ensure the necessary skills, tools and techniques are in place to support the changes required in the workforce to deliver the desired outcomes of the 2050 Road Map and related strategic and outcome delivery plans
 - Southend 2050 – Outcome based investment: progress the Council's work to achieve the 2050 Road Map, including moving to an outcome based investment approach to business and budget planning and management for future years
 - Southend 2050 – New governance architecture: develop and embed the Council's new officer governance architecture (comprising the four new boards) to ensure it is effective, along with other governance bodies, in supporting the 2050 programme and provides the necessary assurance in ensuring good governance.
- 4.8 The Council's Local Code of Governance was updated during the year and became referred to as 'A simple and effective governance framework'. This was reviewed by the Committee in October 2019 ensuring it remained compliant with the CIPFA/SOLACE framework – Delivering Good Governance in Local Government and that the proposed updates were appropriate.
- 4.9 The Committee was able to be satisfied that there are appropriate governance and assurance arrangements in place to safeguard the Council's resources through the annual review of the Council's Annual Governance Statement, the system of internal control and the Head of Internal Audit's annual opinion.

Risk Management and Control Environment

- 4.10 The Committee receives and discusses reports relating to risk management and the control environment. Work continued during the year to enhance monitoring and reporting mechanisms to ensure there is adequate scrutiny and challenge of risk across the Council and aligning this with service planning and management. The Council's Risk Management Strategy was updated during the year and was reviewed by the Committee in October 2019 through the Control Environment Assurance report. The corporate risk register is reported to Cabinet with a rolling review of individual risks contained within it.

Anti-Fraud and Corruption

- 4.11 Countering fraud and corruption is the responsibility of every Member and officer of the Council. The Committee's role in this area is to ensure that the exposure to the risks of fraud and corruption are managed. It has done this by monitoring and supporting the actions taken by officers to counter fraud, including the work of the Counter Fraud and Investigation Team.
- 4.12 The shared counter fraud service agreement with Thurrock Council (the Counter Fraud & Investigation Directorate) ended on 4 October 2019 and the Committee received a report at the January meeting to outline the arrangements for the new team, with a development plan and a new workplan that were being introduced as a result.

- 4.13 The Committee receives reports and presentations on such work undertaken at the Council and proactive fraud work, for example participation in the National Fraud Initiative (NFI) and the work of the Counter Fraud and Investigation Team.
- 4.14 The Council's Counter Fraud, Bribery and Corruption Policy and Strategy, Counter Money Laundering Policy and Strategy and Whistleblowing Policy were reviewed and approved by the Committee as part of the Control Environment Assurance report in October 2019. As a result the Council continues to send out a strong message that fraud will not be tolerated and that where fraud is proven the strongest possible actions of redress will be taken.
- 4.15 Based on the work undertaken to date, along with no major incidences of fraud and corruption being highlighted by management or Internal Audit, the Committee is able to conclude that there is an appropriate anti-fraud framework in place.

External Audit and Inspections

- 4.16 During the year the Committee received a number of reports from the External Auditors, Deloitte, who attend all meetings. These reports include the Audit Plan, the Final Report to Those Charged With Governance, the Annual Audit Letter and the Housing Benefit Subsidy Certification report. When reviewing the reports the Committee considered the audit risks and the assurance that was being provided by the External Auditors.
- 4.17 During the year Ofsted undertook a full inspection of the Council's Children's Services. The inspection considered all areas of statutory children's social work services and early help services delivered by the Council. It did not inspect the work of partners. The inspectors stated that services for children in Southend require improvement to be good across all areas, as was the case at the last inspection in 2016.
- 4.18 While the 2016 inspection found the service required improvement in 12 areas, the 2019 inspection found a need for required improvement in four. A revised Strategic Children's Services Improvement Plan has been put in place and is being overseen and implemented by the Children's Services Improvement Board, a Cabinet / councillor working group, the service and safeguarding partners. The Improvement Board is chaired by the Leader and attended by senior Officers, Lead Member, opposition Children's lead and the chair of safeguarding Partnership along with an independent external expert.

Financial Statements

- 4.19 The Audit Committee has delegated authority to the review and recommend the Annual Governance Statement for signing by the Leader and Chief Executive and to adopt and approve for publication the Statement of Accounts for each year.
- 4.20 At its July 2019 meeting the Committee reviewed and recommended the Council's Annual Governance Statement for signing by the Leader and Chief Executive, subject to any further views expressed by external audit. The Committee considered the draft Statement of Accounts for 2018/19 and agreed to adopt them and approve them for publication.

Treasury Management

- 4.21 The Committee receives and discusses reports relating to treasury management. The Committee's role in this area is to effectively scrutinise and monitor delivery of the treasury management policy statements, the strategy and the annual treasury management investment strategy, setting out how the Council will operate and manage this area of activity.

5. Committee Working Arrangements

- 5.1 The Audit Committee is well established, with the Committee's Terms of Reference reviewed periodically as part of refreshing the Constitution. Membership is reviewed annually. In 2019/20, it consisted of nine members with one co-opted member, who has relevant specific financial and audit experience in local government. The Terms of Reference require that at least one member should have financial expertise and the co-opted member is a retired local government external auditor.
- 5.2 The Terms of Reference specify that the committee will meet four times per year, although further meetings can be arranged on an ad hoc basis as the Audit Committee deems appropriate. Four meetings were held within the last financial year, with the Summer meeting timed to consider the Council's assurance statements, financial statements and any issues raised by the external auditor, to meet the statutory publication deadline.
- 5.3 Members of the Committee have a wide range of both experience and professional knowledge. The Committee has the benefit of being well supported by Council Officers. The Executive Director (Finance and Resources), Internal Audit and External Audit regularly attend at the Committee's request. Other officers attend as necessary to present specific reports.
- 5.4 The Chair and the Vice Chair have regular pre Meetings with lead Officers and External Auditors to review and discuss meeting content to ensure the Committee's Terms of Reference are adhered to.
- 5.5 The Committee has a rolling and flexible programme of work for its main areas of activity which is reviewed and amended throughout the year to reflect changes in policies, priorities and risks. The Committee considered items which are presented annually, such as internal and external audit plans, internal and external audit results, the statement of accounts, the annual governance statement as well as a number of other items including a review of the Control Environment Assurance arrangements.
- 5.6 The Audit Committee completed an annual self-assessment during the year. This demonstrated that the Audit Committee has operated in line with recommended good practice guidance, although there were opportunities for improvement the majority of which would be addressed by the production of this Audit Committee Annual report.
- 5.7 No major breakdowns in internal control, governance and risk management that have led to a significant loss in one form or another have been recorded or reported. Nor have major weakness in the governance arrangements that exposes the Council to an unacceptable level of risk. This includes the period to the end of March 2020 after the government announced on the 23 March 2020 a full scale lock down of the country due to Covid-19.

- 5.8 The purpose and operation of the Committee mitigates against failure by the Council to obtain independent assurance in relation to the governance processes underpinning:
- An effective risk management framework and internal control environment, including audit
 - The compilation and consideration of the Annual Governance Statement.
- 5.9 During 2020/21 the Committee will complete the work that it has begun on the skills stocktake and this will be used to shape training for Committee Members and their substitutes that will be provided, but has been delayed because of the covid-19 pandemic.

6. Conclusion

- 6.1 Through its work, the Committee provides the Council with additional assurance about the robustness of the Council's arrangements regarding governance, risk management and internal controls.
- 6.2 The Committee has added value through its activity and in particular:
- it has continued to increase the importance placed upon governance issues, particularly risk management, anti-fraud and corruption and the assurances sought that key risks are being mitigated
 - it has continued to raise the profile of internal control issues across the Council and to seek to ensure that audit recommendations are implemented.
- 6.3 The Committee's remit is achieved firstly through it being appropriately constituted, and secondly by the Committee being effective in ensuring internal accountability and the delivery of audit to contribute to a robust assurance framework. The Committee has received and challenged reports from management and both internal and external audit.
- 6.4 The Committee has continued to have a real and positive contribution to the governance, risk management and internal control arrangements of the Council.

7. Reasons for Recommendations

- 7.1 **Enabling the Audit Committee to effectively discharge its responsibilities, as per the Terms of Reference, in the most effective way to achieve best practice, assists the Audit Committee with obtaining the necessary assurances and being able to provide assurance to Full Council, including that the Annual Governance Statement appropriately reflects the conditions at the Council.**

8. Corporate Implications

- 8.1 Contribution to the Southend 2050 Road Map
- The work of the Committee provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.
- 8.2 Financial Implications
- Any financial implications arising from identifying and managing risk and obtaining assurance will be considered through the normal financial management processes.

8.3 Legal Implications

There is no legal requirement for the Council to have an Audit Committee, however it is recognised as good practice and provides benefits to the Council, including those arising in this report.

8.4 People Implications

People issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

8.5 Property implications

Property issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

8.6 Consultation

The Audit Committee Annual Report has been discussed and agreed with the Audit Committee Chair before being reported to the Audit Committee and then Council.

8.7 Equalities and Diversity Implications

Equality and diversity issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

8.8 Risk Assessment

Failure to operate a robust Audit Committee (which incorporates the audit functions) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its ambition and outcomes.

8.9 Value for Money

Value for money issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

8.10 Community Safety Implications

Community safety issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

8.11 Environmental Impact

Environmental issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

9. Background Papers

- The Accounts and Audit Regulations 2015
- CIPFA: Audit Committees – Practical Guidance for Local Authorities and Police 2018

Matters considered by the Audit Committee during 2019/20**March 2019**

- BDO: Grant Claims and Returns Certification report for the year ending 31st March 2019
- Deloitte: Audit Plan to the Audit Committee, Audit for the year ending 31st March 2019
- Counter Fraud and Investigation Directorate: Quarterly Performance Report
- Internal Audit Service, Quarterly Performance Report
- Internal Audit Charter, Strategy and Audit Plan for 2019/20

July 2019

- Teachers' Pension Return 2017/18 - Progress report
- Internal Audit Service, Quarterly Performance Report
- Head of Internal Audit Annual Report 2018/19
- Counter Fraud & Investigation Directorate, Annual Report for 2018/19
- Deloitte: Final Report to Those Charged With Governance 2018/19
- Adoption of the Annual Governance Statement 2018/19 and Statement of Accounts 2018/19
- Counter Fraud & Investigation Directorate, Counter Fraud Plan and Strategy for 2019/20
- Audit Committee Self-Assessment

October 2019

- Deloitte: Annual Audit Letter, Audit for the year ended 31 March 201
- Control Environment Assurance
- Local Code of Governance: A Simple and Effective Governance Framework
- Internal Audit Service Quarterly Performance Report

January 2020

- Treasury Management Policy for 2020/21
- Risk Management Update
- Counter Fraud and Investigation Team Quarterly Performance Report
- Internal Audit Service Quarterly Performance Report
- Audit Committee Assessment and Development

April 2020

- Deloitte: Housing Benefit Subsidy Certification report for the year ending 31 March 2019
- Deloitte: Audit Plan to the Audit Committee, Audit for the year ending 31 March 2020
- Counter Fraud and Investigation Team Quarterly Performance Report
- Internal Audit Service Quarterly Performance Report
- Internal Audit Charter, Strategy and Audit Plan for 2020/21
- Audit Committee Assessment and Development

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CIPFA Better Governance Forum

Audit Committee Update

Helping Audit Committees to Be Effective

Issue 32

**COVID-19 Pandemic – Key Issues for the Audit Committee
Regular Briefing on New Developments**

June 2020

Introduction

Dear audit committee member,

This is a difficult time for the whole of the UK, and in order for local government to play its part effectively leadership, good governance and public financial management are essential.

In the latest issue of Audit Committee Update, we address the impact of the COVID-19 pandemic on local government from the perspective of the audit committee. We look at the impact on core responsibilities of the committee and how they are being impacted. We also consider some of the wider impacts on local government and address how the audit committee might consider them.

The remainder of this issue focuses on keeping you up to date with our regular briefing covering recent reports and guidance.

Overall, I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes

Diana Melville

CIPFA Better Governance Forum

Sharing this document

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Receive our briefings directly

This briefing will be sent to the main contact of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be sent to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register please visit: www.cipfa.org/Register.

Previous issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. Click on the links below to find what you need.

Principal Content	Link
Issues from 2010 and 2011– the content in these issues has been replaced by more recent issues.	
Issues from 2012	
Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
Commissioning, Procurement and Contracting Risks	Issue 8
Reviewing Assurance over Value for Money	Issue 9
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA's Guidance on Audit Committees	Issue 11
Issue 12 – the content in this issue has been replaced by more recent issues.	
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act	Issue 13
Issues 14 and 15 – the content in these issues has been replaced by more recent issues.	
Issues from 2015	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
The Audit Committee Role in Reviewing the Financial Statements	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors	Issue 19
CIPFA Survey on Audit Committees 2016	Issue 20
The Audit Committee and Internal Audit Quality	Issue 21
Issues from 2017	
Developing an Effective Annual Governance Statement	Issue 22
2017 Edition of the Public Sector Internal Audit Standards, Risks and Opportunities from Brexit	Issue 23

Issues from 2018	
The Audit Committee Role in Risk Management	Issue 24
Developing an Effective Annual Governance Statement	Issue 25
CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018	Issue 26
Issues from 2019	
Focus on Local Audit National Audit Office Report: Local Authority Governance	Issue 27
The Audit Committee Role in Counter Fraud	Issue 28
CIPFA Statement on the Role of the Head of Internal Audit External Audit Arrangements for English Local Government Bodies	Issue 29
Issues from 2020	
CIPFA Financial Management Code Responding to the Redmond Review: Results of CIPFA's Survey on Audit Committees	Issue 30
Compendium Edition: Reviewing the Audit Plan, Self-assessment and Improving Effectiveness, Developing an Effective Annual Governance Statement and Focus on Local Audit	Issue 31

Workshops and training for audit committee members in 2020 from CIPFA

Webinar – Special councillor conference: Understanding the impact of COVID-19 on your council

- [11 June](#)

Webinar – Update for local authority audit committee members

The impact of COVID-19 on the annual governance statement and internal audit.

- [24 June](#)

Webinar – Councillors' guide to understanding your council's financial reporting requirements

Training for audit committee members in understanding and reviewing the financial statements of their authority.

- [7 July](#)
- [8 September](#)

We hope to run the following events face to face but if this proves to be impossible then we will deliver them by webinar.

Introduction to the knowledge and skills of the audit committee

This training event will provide more in-depth knowledge of the core areas of an audit committee's functions, including risk management, assurance planning and improving the effectiveness of the committee.

- Wednesday 16 September, London
- Thursday 17 September, York
- Tuesday 29 September, Manchester

Development day for police audit committees

These events are suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. These events are run in conjunction with CIPFA's Police and Fire Network.

- Wednesday 30 September, London
- Thursday 1 October, York

Development day for local government audit committees

This workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role. In addition, it will feature the new governance framework, internal audit developments and other key topics.

- Wednesday 2 December, London
- Wednesday 16 December, York

Other dates in late 2020 or early 2021 will be announced later in the year.

CIPFA events information and dates will be available on the [website](#) in due course.

In-house training, facilitation and evaluation of your audit committee

In-house audit committee training and guidance tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

For further information, email diana.melville@cipfa.org or visit the [CIPFA website](#) for further details on the support we have available for audit committees.

Focus on COVID-19

Local government's response to the COVID-19 pandemic

Local government has played a significant role in response to the pandemic, including critical areas such as social care, policing, homelessness and grants and reliefs to local businesses, as well as emergency response and local coordination of volunteers. The aim of this briefing is not to attempt to capture the full range of activities, but to focus on key areas that fall within the remit of the audit committee.

Focus on financial resilience risks

It is not the role of the audit committee to manage risks, but they should understand the significant and strategic risks their organisation is facing. Many local authorities are signalling that their response to the pandemic is augmenting the financial pressures they are facing. For each authority there will be differences according to their service obligations and their financial resilience prior to the start of the pandemic. The following list highlights the main factors, but there may be additional local issues too:

- additional expenditure on critical service areas such as social care or homelessness and purchase of protective equipment
- loss of income from income generation activities (car parking revenue, income from leisure activities such as leisure centres and theatres, other commercial operations)
- delays in receipt of income from fees and charges (eg planning fees, licences, deferral of council tax instalments or non-payment of rent or business rates)
- longer-term risks around a downturn in local business activity, investment and economic development
- reduced return on investments following the reduction in interest rates
- impact of interruption to the property market
- delays in the implementation of savings programmes which are required to balance the budget in the current financial year
- supply chain risks and concern about the failure of key suppliers or partners.

The impact of these risks have lead some chief financial officers (CFOs) to raise concerns about their organisation's ability to achieve their budget for 2020/21. This was acknowledged in evidence presented to the [Housing, Communities and Local Government inquiry](#). Section 114 of the Local Government Finance Act 1988 (and Section 108 of the Local Government (Scotland) Act 1973 and Section 93(3) of the Local Government Finance Act 1992 for Scottish authorities) requires the CFO to inform the authority where they believe that the authority's expenditure is likely to exceed available resources. The authority is prevented from entering into any agreements incurring expenditure until the council has considered the report. The [CIPFA Statement on the Role of the Chief Financial Officer in Local Government](#) explains this responsibility in more detail. CIPFA will be publishing additional guidance on this area shortly.

It would normally be expected that detailed financial scrutiny of performance against the authority's budget would be carried out by the appropriate scrutiny mechanism. Scrutiny would also play its role in reviewing changes to the policies and priorities of the authority. The audit committee should be made aware of the risks and how they are being managed. In particular the audit committee will focus on any changes to internal controls and financial governance that are taken to enable the authority to manage its resources more effectively. These issues are also likely to feature in the narrative report that will form part of the financial statements which will come before the audit committee for review. See the latest [CIPFA Bulletin](#) for the guidance on narrative reports.

Key questions for audit committee members	
1	How significant are the risks to our financial resilience in 2020/21?
2	To what extent has the authority received funds or commitments that will mitigate the risk of a shortfall against the budget in 2020/21?

Focus on the preparation of the financial statements for 2019/20

The timing of the disruption from the pandemic has been keenly felt by those responsible for the preparation of the financial statements. Apart from the disruption to normal working arrangements or sickness absence of key staff, critical processes for the financial statements cannot be easily undertaken. For example, valuations of assets may not have been completed by 31 March, valuers may not be able to access properties to complete the work and valuations may have changed significantly at the year-end. Other examples where accounting judgements may have to be amended are included in the [CIPFA Bulletin](#).

This situation has raised a number of concerns: the completion of the financial statements for audit could be delayed or if supporting evidence for the accounts is inadequate then a modified audit opinion could result. The audit committee will need to understand the impact when they come to review the financial statements prior to approval.

Changes have been made to the timetable for the completion of draft statements and audit for local government bodies in the UK. Further details are set out later in this issue.

Key questions for audit committee members	
1	What is the impact on resources needed for the preparation of the financial statements?
2	How have accounting judgements in the accounts been affected?

Focus on governance and the annual governance statement

One immediate impact of lockdown and social distancing arrangements was the inability of local authorities to hold committee meetings that met the legal requirements. This has now been remedied by the implementation of [the Local Authorities and Police and Crime Panels \(Coronavirus\) \(Flexibility of Local Authority and Police and Crime Panel Meetings\) \(England and Wales\) Regulations 2020](#) and [The Local Authorities \(Coronavirus\) \(Meetings\) \(Wales\) Regulations 2020](#). It should now be possible for decision making to take place in accordance with normal governance structures and delegations. The Association of Democratic Services Officers (ADSO) and Lawyers in Local Government (LLG) have produced model procedure rules and a protocol for the management of remote meetings.

The CIPFA Better Governance Forum has issued a briefing on how local government bodies should consider the impact of COVID-19 within their annual governance statement for 2019/20. The briefing can be downloaded from the [CIPFA website](#).

Key questions for audit committee members	
1	Are we satisfied that adequate arrangements are now in place to ensure appropriate decision making, scrutiny and accountability?
2	How has the annual review of governance been affected by operational changes?
3	Does the Annual Governance Statement recognise the impact on our governance of Covid-19?

Focus on internal audit

One key role for the audit committee is to have oversight of internal audit's adherence to professional standards. The work of internal auditors has inevitably been impacted by the change to homeworking, reprioritisation of planned audit work and even diversion of internal audit staff to other business critical activities. Guidance to heads of internal audit has been issued by the Internal Audit Standards Advisory Board. CIPFA is a member of the board in its role as one of the standard setters that mandate the Public Sector Internal Audit Standards (PSIAS).

[The full briefing is available here.](#) In summary the head of internal audit should advise the audit committee of the impact being experienced by internal audit and how professional standards are being maintained. The audit committee has an important role to play in

providing support to the internal audit service particularly around audit resourcing and safeguards for auditor independence.

The head of internal audit would usually present the annual opinion to the committee at this time of year. Completing audits from 2019/20 will have been particularly challenging for the audit team in March and April. As a result the annual opinion may be delayed or may include some limitations of scope.

Key questions for audit committee members	
1	How is internal audit being affected by COVID-19? In particular how are the following impacted: <ul style="list-style-type: none">• resourcing• audit plans• independence.
2	How has the assurance provided by the head of audit's annual opinion for 2019/20 been affected?

Looking ahead for the audit committee

As well as responding to the key areas identified above, audit committee members should give some thought to how their own work programme might change over the next few months in response to new areas of risk and the need for assurance. This will enable the committee to have productive discussions with officers over their work plans and priorities.

Some areas to consider are:

- What does the committee need assurance on?
- How is the internal audit plan for 2020/21 changing?
- How effectively are our risk management arrangements capturing, reporting and escalating changes in risks throughout the organisation?
- What new fraud risks have emerged and do we have plans in place to mitigate them?
- How are external auditors planning their audit? Will there be changes to the timescale or audit approach?

At an appropriate point the authority should consider its own review of its handling of the pandemic and identify lessons learned. There are also likely to be recommendations or learning points from national or sector-wide reviews. Responding to these learning points could be critical if a 'second wave' of COVID-19 is experienced later this year or next year. There could be role for the audit committee in reviewing the outcome, especially if recommendations relate to governance, financial management or internal control.

Further guidance and support relating to covid-19 and its impact is available on the [CIPFA website](#).

Diana Melville
Governance Advisor

Recent developments you may need to know about

Legislation and regulations

Local authority meetings

The [Coronavirus Act 2020](#) enabled the government to issue essential regulations to allow online committee meetings to be held. [The Local Authorities and Police and Crime Panels \(Coronavirus\) \(Flexibility of Local Authority and Police and Crime Panel Meetings\) \(England and Wales\) Regulations 2020](#) provides for committee meetings to be held online with provision for public access and accountability local authorities in England and police and crime panels in England and Wales.

[The Local Authorities \(Coronavirus\) \(Meetings\) \(Wales\) Regulations 2020](#) makes provision for local authority meetings in Wales.

The [Coronavirus \(Scotland\) Act 2020](#) includes provision for the public to be excluded from meetings if there is a real and substantial risk to public health.

Timetables for draft financial statements and publication

England

The [Accounts and Audit \(Coronavirus\) \(Amendment\) Regulations 2020](#) has amended the relevant sections of the [Accounts and Audit Regulations 2015](#) to allow later completion and audit of the draft financial statements and annual governance statement in England. English authorities will need to sign off their draft accounts by **31 August**, instead of 31 May to allow for the public inspection which must happen at the latest at the start of September. Earlier closure and inspection is still possible to allow more flexibility.

The date for final publication of the accounts and AGS has also been put back to **30 November** in England. This is also the target date for the accounts to be audited, although this is not a statutory requirement.

Scotland

A Scottish Government circular, [Local Authority Accounts 2019-20 – COVID-19](#), has provided the option to extend the timetable for the draft accounts and completion of the audit. Authorities must publish a notice to extend before **17 June** and unaudited accounts should be published at the latest by **31 August**. If audited accounts are to be published after 30 September then authorities will need to publish a notice to that effect. Audited accounts should be published no later than **30 November**.

Wales

Local government bodies in Wales have also been advised that they can delay the publication of draft accounts if needed. This will require preparation and certification of draft accounts by **31 August** and publication of final audited accounts by **30 November** for all local government bodies in Wales.

Reports, recommendations and guidance

New Guidance for internal auditors on ensuring Conformance with Standards

The Internal Audit Standards Advisory Board (IASAB) has issued new guidance to internal auditors in the UK public sector on how they can conform with the Public Sector Internal Audit Standards (PSIAS) whilst managing the impact of COVID-19.

Internal auditors should be playing a vital part within their organisations to help protect their organisations and support the wider public interest. Heads of internal audit will need to adjust their plans and priorities and deal with new ways of working. They may face challenges such as diversion of staff to other duties that could result in difficulties in conforming with the

PSIAS. The audit committee should understand the issues and provide oversight and support on professional issues.

The briefing, [Conformance with PSIAS during the coronavirus pandemic](#) can be downloaded from the CIPFA website. There is also a [webinar](#) on this topic to view, featuring the Chair of the IASAB Simon Edge and Diana Melville, CIPFA's representative on the IASAB.

Internal audit engagement opinions

A review undertaken by the CIPFA Internal Audit Special Interest Group considers the case for common definitions and proposes definitions linked to the audit scope. This briefing will help audit committee members understand the meaning of engagement opinions they see on audit reports and help them consider whether the common definitions would be appropriate for them. [Internal Audit Engagement Opinions](#)

Streamlining the accounts

As part of its response to COVID-19 CIPFA proposed changes to the Code of Accounting Practice for 2019/20 that would have reduced the detail of the financial statements for one year only. CIPFA's proposals were considered by the CIPFA/LASAAC board that oversees the Code which includes key regulators and audit representatives. However, the board was not willing to agree to the proposals. Details of CIPFA's response is available in the [press release](#). As a result there are no changes to the 2019/20 Code.

Modified audit opinions during COVID-19 crisis

The Financial Reporting Council has issued [guidance to external auditors](#) on whether (and which type) of modification to the audit opinion might be appropriate if the audit of the statement of accounts is affected by COVID-19 issues. The guidance is generally applicable to audits across the UK not just local audit.

Supply sustainability in the local audit market

Public Sector Audit Appointments commissioned a study of the local audit market, [Future supply sustainability in the local audit market](#) to look at the long-term issues impacting on suppliers of local audit. The report concludes that the sustainability of audit supply will be difficult to achieve and will depend to a great extent on factors that are outside PSAA's control.

PSAA Quality of Audit Service feedback survey

PSAA carried out a survey to obtain feedback from CFOs and audit committee chairs on the conduct of local audits. The survey covered areas such as expertise, communication and timeliness. It includes the reporting and liaison with the audit committee. The results are broken down by the firms providing local audits in England: [Quality of Audit Service feedback](#).

Public standards in England: 25 years since the creation of CSPL

The [report from the Committee on Standards in Public Life](#) (CSPL) provides an overview of the standards landscape effective in the central and local government and administration of the UK.

Fighting fraud and corruption locally

An update of the strategy for local authorities: [Fighting Fraud and Corruption Locally Strategy 2020](#).

Perspectives on fraud: insights from local government

An in-depth look at fraud from professionals within UK local authorities – from counter fraud professionals to heads of service delivery. The report [Perspectives on fraud](#) was commissioned by CIPFA and explores perceptions of fraud.

Coronavirus (COVID-19): guidance for local government

This web page includes the guidance and updates from government to local government. It includes details of funding allocations, service-specific guidance and other relevant updates: [Ministry of Housing Communities and Local Government](#).

Departmental overview local authorities

[Briefing](#) from the National Audit Office (NAO) on the structure of local authorities, recent NAO reports on the sector (including local authority governance) and current issues.

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Certificate No.



National Audit Office

Report

by the Comptroller
and Auditor General

Good Practice Guide

Guide for audit and risk committees on financial reporting and management during COVID-19

We are the UK's independent public spending watchdog.

We support Parliament in holding government to account and we help improve public services through our high-quality audits.

The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services. The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. We audit the financial accounts of departments and other public bodies. We also examine and report on the value for money of how public money has been spent. In 2018, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £539 million.



National Audit Office

Good Practice Guide

Guide for audit and risk committees on financial reporting and management during COVID-19

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 23 June 2020

This guide has been prepared under Section 6 of the
National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

22 June 2020

This guide aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government's response to COVID-19.

Good practice guide

We publish good practice guides on important issues to make it easier for others to understand and apply the lessons from our work.

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Contents

Introduction 4

Part One

Annual reports 6

Part Two

Financial reporting 8

Part Three

Control environment 15

Part Four

Regularity of expenditure 17

Appendix One

Key questions to ask 21

Appendix Two

Further resources 26

Appendix Three

National Audit Office's Fraud and
Error Framework 28

The National Audit Office study team consisted of:
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Introduction

Background

- 1** The scale and nature of the current COVID-19 outbreak and government's response is unprecedented in recent history. The outbreak has impacted on all public sector bodies, either through delivering the government's response, or in dealing with challenges for individual organisations.
- 2** This guide is part of a programme of work to be undertaken by the National Audit Office (NAO) to support Parliament in its scrutiny of the UK government's response to COVID-19. Our aim is to report in a risk-based way on programmes and activities being undertaken by government departments and other organisations, and also to support organisations' own internal scrutiny and challenge.
- 3** Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.
- 4** Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.

This guide

5 This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

6 In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

7 The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period when more specific and detailed reporting on the outbreak will be required.

8 While this guide is intended to be a comprehensive consideration of areas that organisations, and audit and risk committees, will need to consider, each organisation will need to take account of its own unique circumstances in considering the impact of COVID-19. The guide is not exhaustive, and we would expect each organisation to familiarise themselves with the underlying guidance where relevant.

Part One

Annual reports

1.1 The annual report is a key mechanism for transparent disclosure of an organisation's in-year performance and governance matters. Disclosures in the annual report will help to provide information about the impact of COVID-19 on the organisation to users of annual reports and accounts.

1.2 This part sets out HM Treasury's requirements for annual reports and potential questions for audit and risk committees to ask in the context of COVID-19.¹ While the significant impacts of the outbreak only emerged in the UK in mid-March, there are some impacts in 2019-20. Annual report disclosures are expected to consider the period up to when the document is published.

Performance report

1.3 The purpose of the performance section of the annual report is to provide information on the entity, its main objectives and strategies and the principal risks it faces. The report should discuss how the entity has performed in the year, including areas where performance has deteriorated or is below expectations, where money has been spent and the other key risks impacting on the organisation.

1.4 HM Treasury expects that the performance report will detail the impact of COVID-19 on the organisation in 2019-20. While reporting could be more streamlined than in prior years, it should still provide enough information to satisfy parliamentary accountability and provide appropriate transparency. Any planned streamlining should be agreed with the relevant select committee or department before approval of the annual report and accounts.

¹ We have summarised HM Treasury's requirements for annual reports in this part. The full requirements can be found in the *Government Financial Reporting Manual* here: www.gov.uk/government/publications/government-financial-reporting-manual-2019-20. Specific COVID-19-related updates to this manual can be found here: www.gov.uk/government/publications/financial-reporting-manual-addendum-2019-20

Accountability report

1.5 The purpose of the accountability section of the annual report is to meet key accountability requirements of Parliament. In the context of COVID-19, the corporate governance report element of the accountability report provides an important mechanism for organisations to outline how COVID-19 has affected governance arrangements, the control environment, changes to their risks and risk appetite, as well as any relevant considerations in relation to the regularity of expenditure.

Box A: Annual reports – questions audit and risk committees could ask

Has COVID-19 caused new risks to achieving the organisation's stated objectives?

- Does the performance report reflect the impact of COVID-19 on the organisation's performance against objectives in the year?
- Does it clearly consider whether COVID-19 influenced the organisation's ability to meet objectives?
- Does it consider the organisation's performance in general, including where this deteriorated or was below expectations?

Does the corporate governance report consider whether expenditure in response to COVID-19 was in line with parliamentary authority (regular) and in accordance with the principles of *Managing Public Money*?²

- Where this was not the case, has this been clearly disclosed?

Does the corporate governance report detail how the control environment has changed due to COVID-19 and the risks associated with these changes?

- How does the report discuss new risks in relation to COVID-19 and the associated responses to these?
- Does the report discuss how the organisation's risk appetite has changed?
- Where relevant, has any streamlining to the annual report due to COVID-19 been agreed with the relevant select committee or parent department?

² HM Treasury, *Managing Public Money* is available at: www.gov.uk/government/publications/managing-public-money

Part Two

Financial reporting

2.1 The effects of the COVID-19 outbreak and response could appear in different areas of the financial statements. This part considers key questions for audit and risk committees to consider, including:

- valuations, including property, pension scheme and inventory valuations;
- completeness of liabilities;
- going concern; and
- events after the reporting period.

Valuations

2.2 The economic uncertainty caused by COVID-19 has made valuations of assets and liabilities more challenging for 2019-20. We expect the biggest issues for management to be accessing reliable data sources to base valuations on, as well as significantly increased estimation uncertainty. Therefore, management should consider the following areas in preparing valuations for financial statements:

- Whether usual sources of information for valuations remain appropriate in the context of COVID-19 uncertainties, and if not, what alternative sources of information are available.
- Whether assumptions used in valuation models/estimates require updating because of COVID-19. This should include considerations that underpin credit loss calculations and impairment reviews where COVID-19 has changed the circumstances for creditors and markets.
- If there are additional sources of information that should be used for valuation judgements – such as updated customer information to determine expected credit losses or impairments.
- Whether there are practical impacts for some organisations where lockdown measures limit the ability for valuers to complete work on physical assets, including stock-takes as noted in the inventory valuations section below.
- If there will be more appropriate information that gives an indication of the situation at the year-end available before the finalisation of the financial statements.

2.3 The financial statement disclosures should also be transparent in setting out all sensitive and material assumptions made in determining valuations.

Box B: Valuations – questions audit and risk committees could ask

What information has been used in determining the value of assets and liabilities?

- In the absence of timely information, how has management estimated valuations? Is this reasonable? How have changes in valuations for reasons due to COVID-19 been considered? Is there any other information that should be considered?

How have experts been used to support management in valuations?

- Where experts' work was completed before the reporting date, how has management gained comfort that the valuation remains appropriate?
- Have the experts provided any caveats on their advice? If so, how have these been considered?

What are the key assumptions used to determine valuations and how has the relative probability of various outcome scenarios been assessed?

- Have the key assumptions been disclosed clearly?

Property valuations

2.4 The impact of COVID-19 on the economy and the impact of government restrictions has led to a significant slowing of the property market. As of April 2020, property sales in the UK were 46% lower than in March.³ This makes it more difficult for management, and its experts, to value significant property portfolios. In addition to the general valuation considerations set out above, we expect there could be specific challenges in the following areas of property valuation:

- Where management uses an expert to value property, the expert may include material uncertainty clauses in valuation reports, given the uncertain environment, which management will need to consider.
- Organisations not due to revalue property in 2019-20 may be using an indexation method to uplift prior-year valuations. Due to the lack of reliable and appropriate market data, organisations may find it difficult to identify appropriate indices to use.
- There are practical challenges due to the outbreak in relation to the physical verification of assets, impacting valuation judgements.

³ HM Revenue & Customs, *UK Property Transactions Statistics, April 2020 update*, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/886277/MPT_Com_May_20_cir_.pdf

Box C: Property valuations – questions audit and risk committees could ask**What data have management used for property valuations?**

- Is this reasonable? Are there other data that could be used?
- Do these data consider how the market changed in late March 2020?

How have experts been used to support management in valuing property?

- Where experts' work was completed before the reporting date, how has management gained comfort that the valuation remains appropriate?
- If experts were not used for property valuations, should they have been given the current uncertainty?

Have the valuers been able to complete their work?

- If they have managed to complete their work, has a material uncertainty paragraph been included in their report?
- How has this clause been considered by management?

Where a full revaluation is not required in-year how has management valued property in the current market?

- Has management considered whether the indices used remain appropriate?

Have assets been physically verified?

- If not, how have impairment reviews been carried out? Are there any other impacts of not physically verifying property?

Is the disclosure of estimation uncertainty clear and understandable for users?

- Have all relevant sources of estimation uncertainty been disclosed?

Pension scheme valuations

2.5 If an organisation participates in a defined benefit pension scheme, it may be required to recognise the deficit or surplus of that scheme as at year-end. The significant uncertainty associated with the COVID-19 outbreak will affect the measurement of pension scheme assets or liabilities in the following ways, in addition to the general valuation difficulties above:

- There may be increased complexity in valuing scheme assets, particularly where assets do not have an active market or where the valuation is affected by the volatility in the financial markets.
- Actuarial assumptions used to project the defined benefit obligation may require updating due to the outbreak, including financial assumptions such as discount rates and salary growth. As for general valuations, we would expect any changes in assumptions would be disclosed, along with any sensitivity analysis of these assumptions.

Box D: Pension schemes valuations – questions audit and risk committees could ask

Has management held discussions with pension plan actuaries regarding changes to their assumptions due to COVID-19?

- What adjustments have been made to assumptions?
- Do the actuarial assumptions represent the information available at the reporting date?

What is the availability of information to be used in determining valuation?

- Where valuation information which does not date from the year-end has been used, how has management ensured this is accurate as at the reporting date?

Have pension plan actuaries provided any caveats in their reporting?

- If so, how has management taken account of these?

Inventory valuations

2.6 In addition to the general valuation difficulties set out above, we anticipate specific inventory challenges in relation to the outbreak, including:

- organisations may encounter difficulties estimating the value of inventories held due to the volatile market conditions or a lack of a market in which to sell inventory due to lockdown restrictions;
- organisations may encounter greater obsolescence of perishable stock due to lockdown restrictions; and
- practical difficulties in completing physical inventory counts due to lockdown restrictions.

Box E: Inventory valuations – questions audit and risk committees could ask

How has management gained comfort over the quantity and condition of the stock held at the reporting date?

- If stock counts have not been possible, what alternative procedures have management completed?

How has COVID-19 impacted inventory usage?

- When do you expect this to go back to normal?
- How has this impacted valuation forecasts?

How has management valued inventory held in the context of COVID-19?

- Is this reasonable? What other methods could have been considered?

Has management had to use new suppliers/hold inventory of new goods?

- How has management assured itself that the suppliers can supply or have supplied the goods at the quality or quantity required?

Completeness of liabilities

2.7 The impact of COVID-19 may impact on the liabilities of an organisation. For example, new liabilities could emerge due to legal cases, contractual obligations, commitments or changes in assumptions and policies. The impact of COVID-19 could also lead to onerous contracts, as plans for contracts held could have changed, costs may have increased, or an organisation may be unable to fulfil contracts previously signed.

2.8 Management should consider the following areas in assessing the completeness of liabilities for financial statements:

- Consideration of all major contracts to identify potential onerous contracts.
- Re-assessment of the likelihood of open legal cases at the reporting date in consideration of the COVID-19 context.
- Use of the best available information to value new liabilities identified.
- Disclosure of assumptions made about material estimation uncertainty in relation to liabilities.

Box F: Completeness of liabilities – questions audit and risk committees could ask

Are liabilities complete based on your knowledge of the business and the impact of COVID-19?

- Has management completed a robust review to identify onerous contracts?
- Are there any other areas of COVID-19 impacts that are not yet considered?

Is management using the best available and most up-to-date information to value?

- Where information is not available at the reporting date, has management completed adequate procedures to assess the impact of COVID-19?

Where there is estimation uncertainty is it disclosed transparently in the financial statements?

- Does this include sensitivity analysis?

Going concern

2.9 An entity is a going concern unless management either intends to cease the activities of the organisation or has no realistic alternative but to do so. For some organisations, the impact of COVID-19 may leave management with no realistic alternative but to cease its activities. When preparing the financial statements, management is responsible for completing a full assessment of whether the organisation is a going concern, considering the impacts of COVID-19 and other events on the long-term viability of the organisation.

2.10 There may be material uncertainty related to going concern, caused by COVID-19 casting significant doubt on the organisation's ability to continue to operate. Where this is the case, the financial statements must clearly state that there is material uncertainty related to going concern, and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The principal events or conditions casting doubt should be clearly disclosed in the financial statements.

2.11 For central government organisations that follow the *Government Financial Reporting Manual*, it is rare that activities completely cease, and it is more likely that the activities of an organisation that may be closing are transferred to an organisation that is continuing. In this case, going concern is presumed by virtue of the functions transferring, and therefore financial statements are prepared on this basis, but we would still expect management to document its consideration of the impact of COVID-19 on its future business plans.

2.12 Management should consider the following areas in making its going concern assessment:

- All information available about the future, including impacts of COVID-19 on the organisation's future performance and agreement of future funding. This should be updated and considered until the financial statements are published.
- A view of at least, but not limited to, 12 months from the date when the financial statements are published.
- Specific considerations for the organisation and its specific risks.

Box G: Going concern – questions audit and risk committees could ask

Is management's strategy or business plan from a period pre-COVID-19?

- Has this been updated? If not, is it clear why a plan from before the outbreak remains appropriate?

Is management's forward plan robust in the context of COVID-19?

- Do forecasts represent the latest information available? Has management completed scenario-testing on its forecasts?
- Is the forward plan in line with your understanding?

Is management's going concern consideration complete?

- Has management considered different eventualities and the likelihood of each?

Is there substantial doubt over the entity's ability to continue as a going concern?

- Do the disclosures in the financial statements reflect the impact of COVID-19 transparently?

Events after the reporting period

2.13 The impacts of the COVID-19 pandemic emerged in March 2020 around the year-end for many government organisations, increasing the likelihood of events after the reporting period that may require disclosure in the financial statements. This may include events such as new liabilities for the organisation as a result of new COVID-19-related activities, changes in key contractual arrangements impacting the organisation, or impacts on the recoverability of the organisation's asset values.

2.14 Management are required to consider two types of potential events after the reporting period:

- those that provide evidence of conditions that existed at the date of the financial statements (adjusting events); and
- those that provide evidence of conditions that arose after the date of the financial statements (non-adjusting events).

2.15 Adjusting events would lead to the financial statements of an organisation being updated for the impact of the change, whereas non-adjusting events are only disclosed if material to the organisation, in the events after the reporting date note.

Box H: Events after the reporting period – questions audit and risk committees could ask

Have management considered all relevant events after the reporting date that could impact on the organisation?

- Are these events correctly assessed as adjusting or non-adjusting events?
- Do the financial statements make clear how COVID-19 has impacted the organisation in general after the reporting period date?

Do the financial statements appropriately recognise the events identified?

- Are the financial statements appropriately adjusted for relevant adjusting events?
- Have non-adjusting events been clearly and transparently disclosed?
- Is the value of non-adjusting events and potential impact for the organisation clear?

Part Three

Control environment

3.1 The internal controls in place at many organisations may have stopped, required modification or been overridden by new controls introduced to adapt to the impact of the COVID-19 outbreak. Changes may have been made at pace to respond to a dynamic environment, which may impact effectiveness.

3.2 This part outlines some areas where controls may have changed as well as potential questions for audit and risk committees to ask in the context of COVID-19.

3.3 There may be changes in controls over preparing the financial statements in the following areas:

- **Remote working** may have impacted the ability for controls to operate as designed. Due to the quick transition, controls may have been changed at pace or not be operating as intended, increasing the risk of fraud and error.
- **Operational imperative to deliver more quickly** or due to changes in staff availability may mean standard procedures needed to be overridden.
- **New activities** not previously undertaken by the organisation may mean new processes were introduced at speed and may not be as robust.
- **Senior management oversight** may have been reduced due to urgent operational priorities.
- **IT security systems** may not have been designed for large-scale remote working and controls may have been reduced by the changed ways of working.

3.4 Where internal controls have been implemented or revised, management should consider whether it is sustainable in the longer term for the controls to operate in this way. For example, an increased burden on specific members of the organisation may be appropriate in the short term but, as the outbreak continues, there is a risk that the organisation becomes overly reliant on a small group of individuals. Management should consider how it can reinstate or strengthen the controls that are in place in order to operate in the current conditions for a sustained period. In the longer term, management should also consider what the desired control environment will look like and how to achieve it, when the outbreak has passed.

3.5 We would expect organisations to consider their risk assessments when making changes to their internal controls, enhancing and prioritising the critical controls needed to reduce the risk of fraud or error.

Box I: Control environment – questions audit and risk committees could ask

Were any changes needed to the design and implementation of internal controls to respond to COVID-19?

- What has been the impact of these changes? How long are these changes expected to last? Are the changes sustainable? How significant are these changes?
- Has internal audit assessed the design, implementation and operational effectiveness of revised internal controls? Can the negative impact of any changes be reversed?

Where changes were made to controls, did the organisation understand where there was increased risk because of this?

- Were other controls strengthened to compensate for this?

Has remote working affected the operational effectiveness of internal controls?

- Are any controls only able to be implemented in person, such as those over physical assets?
- Have changes in personnel performing the controls impacted effectiveness?

How have IT services performed during the outbreak?

- How has this impacted the effectiveness of controls?
- How have cyber security controls been considered?

Where service organisations are used, have there been any changes to the design and implementation of their controls?

- Where relevant, what has been the impact of this?

Part Four

Regularity of expenditure

4.1 In response to COVID-19, organisations have been required to increase spending and, in some circumstances, incur expenditure on activities outside those permitted by original authorising legislation or other applicable delegated authority.

4.2 This part outlines the relevant regularity considerations for organisations, along with potential questions for audit and risk committees to ask in the context of COVID-19.

4.3 During the current circumstances, organisations and their accounting officers should still ensure that all expenditure adheres to the principles in *Managing Public Money*:⁴

- **Regularity:** if a proposal is outside an organisation's framework of authorities, it is deemed irregular. The framework of authorities can be the legal powers, parliamentary authority, HM Treasury delegations or voted spend. If a department exceeds its spending limits authorised by Parliament, this is irregular and results in an excess vote and qualified regularity audit opinion.
- **Propriety:** if a proposal does not meet "standards of public conduct", such as appropriate governance or parliamentary expectations.
- **Value for money:** if an alternative proposal, or doing nothing, would deliver better value (cheaper, higher quality or more effective use of funding).
- **Feasibility:** where there is a significant doubt about whether the proposal can be implemented accurately, sustainably or to the intended timetable.

⁴ HM Treasury, *Managing Public Money* is available at: www.gov.uk/government/publications/managing-public-money

4.4 Accounting officers should bring to the attention of the relevant minister any conflict between their instructions and the principles in *Managing Public Money*. If the minister decides to continue with this course of action even though the accounting officer has advised the instructions conflict with *Managing Public Money*, it would be expected that a ministerial direction would be provided. During the outbreak we have seen an increased use of ministerial directions. Where ministerial directions are required, management should bring the matter to the attention of the audit and risk committee and it should be disclosed in the corporate governance report.

Procurement Policy Note 02/2020

4.5 In response to the COVID-19 outbreak, the Cabinet Office has issued Procurement Policy Note (PPN) 02/2020 which sets out its expected approach for supplier payments during the outbreak.⁵ This PPN aims to ensure the continuity of service during the outbreak and ensure suppliers can resume normal contract delivery after the outbreak is over. The PPN is clear that the usual *Managing Public Money* principles of spend being regular, proper and value for money still apply.

4.6 The PPN instructs contracting authorities to pay all suppliers as quickly as possible to maintain cash flow and protect jobs. It advises that contracting authorities should take action to continue to pay suppliers at risk due to COVID-19 to ensure continuity and retention of the supply going forward. Where necessary, advanced payments to suppliers are permitted under the PPN.

4.7 Where the provisions of this PPN are being used by management, we would expect them to be clear that this was required to ensure continuity of service during the outbreak (or after the outbreak) and for all appropriate checks to be carried out and documented on the relevant suppliers before payments are made. The PPN requires suppliers to act on an open book basis, so we would expect management to have received relevant supporting data for payments made.

⁵ Procurement Policy Note 02/2020 is available at: www.gov.uk/government/publications/procurement-policy-note-0220-supplier-relief-due-to-covid-19

Box J: Regularity of expenditure – questions audit and risk committees could ask**Have there been any significant changes to the organisation's activities during the outbreak?**

- If so, have the changes required new legislation or changes to delegated authorities?

Has the accounting officer assessed the reasonableness of increased expenditure or new activities in the context of *Managing Public Money*?

- Have ministerial directions been required? Have these been provided?
- Are these disclosed transparently in the corporate governance report?

Is there any new expenditure that could be deemed novel and contentious?

- How has this been treated?

Has management breached any control totals?

- Have there been any other regularity breaches or contentious issues?

Have the provisions in Procurement Policy Note 02/2020 been used by management?

- Has management carried out and documented appropriate due diligence checks on relevant suppliers?
- Have all other *Managing Public Money* provisions applied to payments made under the Procurement Policy Note?
- Has management received open book information from impacted suppliers?

Fraud and error

4.8 A specific area of regularity that is impacted by COVID-19 is the potential for fraud and error in expenditure, which is heightened due to the pace of the COVID-19 response. This risk could manifest in several ways, including:

- **procurement risks:** new supply chains created at pace not allowing for complete risk assessments or single tender actions with no other options;
- **contractor risks:** new contractors being used at pace not allowing for appropriate due diligence;
- **payments/grants/loans risks:** new or expanded support schemes in place to support employers, employees and businesses during the outbreak that may not have appropriate controls in place; and
- **cyber security risks:** enhanced risk of cyber-attack, leading to fraud or error.

4.9 Instances where controls do not operate as intended due to the outbreak, or where organisations are required to spend at pace may also increase the likelihood of fraud and error.

National Audit Office's Fraud and Error Framework

4.10 The Fraud and Error Framework (Appendix Three) is used to assess the effectiveness of an organisation's response to fraud and error risk. The framework can provide prompts to support departments and larger organisations in regular reporting to the Cabinet Office on fraud risks and incidents. In responding to the outbreak, audit and risk committees may find the framework helpful in considering an organisation's risk and exposures to fraud or error that arise from changes to business as usual, or when introducing new activities.

Box K: Fraud and error – questions audit and risk committees could ask

What exposure to fraud and error does the organisation have in its responses to COVID-19?

- Have controls been turned off or reduced?
- Are there new expenditure or procurement streams, or delivery methods that introduce new risks?

How is the organisation managing fraud and error risks?

- Are they logged, with a monetary estimate of the potential fraud and error exposure?
- Have options to reduce fraud and error been evaluated? Has management assessed the organisation's risk appetite for losses through fraud and error? Are there any changes to this?

What processes are in place to measure fraud and error and evaluate the effectiveness of activities to prevent or detect this?

- How is management using this information to update risk assessments or inform controls?
- Does management have real-time indicators to support informed decisions on risks?

Appendix One

Key questions to ask

Box A: Annual reports

Has COVID-19 caused new risks to achieving the organisation's stated objectives?

- Does the performance report reflect the impact of COVID-19 on the organisation's performance against objectives in the year?
- Does it clearly consider whether COVID-19 influenced the organisation's ability to meet objectives?
- Does it consider the organisation's performance in general, including where this deteriorated or was below expectations?

Does the corporate governance report consider whether expenditure in response to COVID-19 was in line with parliamentary authority (regular) and in accordance with the principles of *Managing Public Money*?⁶

- Where this was not the case, has this been clearly disclosed?

Does the corporate governance report detail how the control environment has changed due to COVID-19 and the risks associated with these changes?

- How does the report discuss new risks in relation to COVID-19 and the associated responses to these?
- Does the report discuss how the organisation's risk appetite has changed?
- Where relevant, has any streamlining to the annual report due to COVID-19 been agreed with the relevant select committee or parent department?

Box B: Valuations

What information has been used in determining the value of assets and liabilities?

- In the absence of timely information, how has management estimated valuations? Is this reasonable? How have changes in valuations for reasons due to COVID-19 been considered? Is there any other information that should be considered?

How have experts been used to support management in valuations?

- Where experts' work was completed before the reporting date, how has management gained comfort that the valuation remains appropriate?
- Have the experts provided any caveats on their advice? If so, how have these been considered?

What are the key assumptions used to determine valuations and how has the relative probability of various outcome scenarios been assessed?

- Have the key assumptions been disclosed clearly?

6 HM Treasury, *Managing Public Money* is available at: www.gov.uk/government/publications/managing-public-money

Box C: Property valuations

What data have management used for property valuations?

- Is this reasonable? Are there other data that could be used?
- Do these data consider how the market changed in late March 2020?

How have experts been used to support management in valuing property?

- Where experts' work was completed before the reporting date, how has management gained comfort that the valuation remains appropriate?
- If experts were not used for property valuations, should they have been given the current uncertainty?

Have the valuers been able to complete their work?

- If they have managed to complete their work, has a material uncertainty paragraph been included in their report?
- How has this clause been considered by management?

Where a full revaluation is not required in-year how has management valued property in the current market?

- Has management considered whether the indices used remain appropriate?

Have assets been physically verified?

- If not, how have impairment reviews been carried out? Are there any other impacts of not physically verifying property?

Is the disclosure of estimation uncertainty clear and understandable for users?

- Have all relevant sources of estimation uncertainty been disclosed?

Box D: Pension schemes valuations

Has management held discussions with pension plan actuaries regarding changes to their assumptions due to COVID-19?

- What adjustments have been made to assumptions?
- Do the actuarial assumptions represent the information available at the reporting date?

What is the availability of information to be used in determining valuation?

- Where valuation information which does not date from the year-end has been used, how has management ensured this is accurate as at the reporting date?

Have pension plan actuaries provided any caveats in their reporting?

- If so, how has management taken account of these?

Box E: Inventory valuations

How has management gained comfort over the quantity and condition of the stock held at the reporting date?

- If stock counts have not been possible, what alternative procedures have management completed?

How has COVID-19 impacted inventory usage?

- When do you expect this to go back to normal?
- How has this impacted valuation forecasts?

How has management valued inventory held in the context of COVID-19?

- Is this reasonable? What other methods could have been considered?

Has management had to use new suppliers/hold inventory of new goods?

- How has management assured itself that the suppliers can supply or have supplied the goods at the quality or quantity required?

Box F: Completeness of liabilities

Are liabilities complete based on your knowledge of the business and the impact of COVID-19?

- Has management completed a robust review to identify onerous contracts?
- Are there any other areas of COVID-19 impacts that are not yet considered?

Is management using the best available and most up-to-date information to value?

- Where information is not available at the reporting date, has management completed adequate procedures to assess the impact of COVID-19?

Where there is estimation uncertainty is it disclosed transparently in the financial statements?

- Does this include sensitivity analysis?

Box G: Going concern

Is management's strategy or business plan from a period pre-COVID-19?

- Has this been updated? If not, is it clear why a plan from before the outbreak remains appropriate?

Is management's forward plan robust in the context of COVID-19?

- Do forecasts represent the latest information available? Has management completed scenario-testing on its forecasts?
- Is the forward plan in line with your understanding?

Is management's going concern consideration complete?

- Has management considered different eventualities and the likelihood of each?

Is there substantial doubt over the entity's ability to continue as a going concern?

- Do the disclosures in the financial statements reflect the impact of COVID-19 transparently?

Box H: Events after the reporting period

Have management considered all relevant events after the reporting date that could impact on the organisation?

- Are these events correctly assessed as adjusting or non-adjusting events?
- Do the financial statements make clear how COVID-19 has impacted the organisation in general after the reporting period date?

Do the financial statements appropriately recognise the events identified?

- Are the financial statements appropriately adjusted for relevant adjusting events?
- Have non-adjusting events been clearly and transparently disclosed?
- Is the value of non-adjusting events and potential impact for the organisation clear?

Box I: Control environment

Were any changes needed to the design and implementation of internal controls to respond to COVID-19?

- What has been the impact of these changes? How long are these changes expected to last? Are the changes sustainable? How significant are these changes?
- Has internal audit assessed the design, implementation and operational effectiveness of revised internal controls? Can the negative impact of any changes be reversed?

Where changes were made to controls, did the organisation understand where there was increased risk because of this?

- Were other controls strengthened to compensate for this?

Has remote working affected the operational effectiveness of internal controls?

- Are any controls only able to be implemented in person, such as those over physical assets?
- Have changes in personnel performing the controls impacted effectiveness?

How have IT services performed during the outbreak?

- How has this impacted the effectiveness of controls?
- How have cyber security controls been considered?

Where service organisations are used, have there been any changes to the design and implementation of their controls?

- Where relevant, what has been the impact of this?

Box J: Regularity of expenditure**Have there been any significant changes to the organisation's activities during the outbreak?**

- If so, have the changes required new legislation or changes to delegated authorities?

Has the accounting officer assessed the reasonableness of increased expenditure or new activities in the context of *Managing Public Money*?

- Have ministerial directions been required? Have these been provided?
- Are these disclosed transparently in the corporate governance report?

Is there any new expenditure that could be deemed novel and contentious?

- How has this been treated?

Has management breached any control totals?

- Have there been any other regularity breaches or contentious issues?

Have the provisions in Procurement Policy Note 02/2020 been used by management?

- Has management carried out and documented appropriate due diligence checks on relevant suppliers?
- Have all other *Managing Public Money* provisions applied to payments made under the Procurement Policy Note?
- Has management received open book information from impacted suppliers?

Box K: Fraud and error**What exposure to fraud and error does the organisation have in its responses to COVID-19?**

- Have controls been turned off or reduced?
- Are there new expenditure or procurement streams, or delivery methods that introduce new risks?

How is the organisation managing fraud and error risks?

- Are they logged, with a monetary estimate of the potential fraud and error exposure?
- Have options to reduce fraud and error been evaluated? Has management assessed the organisation's risk appetite for losses through fraud and error? Are there any changes to this?

What processes are in place to measure fraud and error and evaluate the effectiveness of activities to prevent or detect this?

- How is management using this information to update risk assessments or inform controls?
- Does management have real-time indicators to support informed decisions on risks?

Appendix Two

Further resources

Below is a selection of guidance and insights that may be useful.

- 1** HM Treasury, *Managing Public Money*, March 2018, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742188/Managing_Public_Money__MPM__2018.pdf
- 2** HM Treasury, *Audit and risk committee handbook*, March 2016, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/512760/PU1934_Audit_committee_handbook.pdf
- 3** The Institute of Chartered Accountants in England and Wales, *Coronavirus: (COVID-19): considering going concern*, 2020, available at: www.icaew.com/technical/audit-and-assurance/coronavirus-considering-going-concern
- 4** The Pensions Regulator, *COVID-19 guidance for employers*, April 2020, available at: www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2020-press-releases/new-covid-19-pension-guidance-published-for-employers
- 5** The Royal Institution of Chartered Surveyors, *Valuation practice alert COVID-19*, 2020, available at: www.rics.org/uk/upholding-professional-standards/sector-standards/valuation/valuation-coronavirus/
- 6** The Institute of Chartered Accountants in England and Wales, *Coronavirus and financial reporting*, 2020, available at: www.icaew.com/coronavirus/financial-reporting
- 7** Financial Reporting Council, *FRC COVID-19 Response*, 2020, available at: www.frc.org.uk/covid-19-guidance-and-advice
- 8** International Auditing and Assurance Standards Board, *Subsequent Events in the Current Evolving Environment*, 2020, available at: www.iaasb.org/publications/subsequent-events-current-evolving-environment-audit-considerations-impact-covid-19

9 HM Treasury, *Addendum to Government Financial Reporting Manual 2019-20: minimum reporting requirements*, 2020, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/884468/2019-20_Government_Financial_Reporting_Manual_-_addendum.pdf

10 HM Government, *The Orange Book: Management of Risk – Principles and Concepts*, 2020, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/866117/6.6266_HMT_Orange_Book_Update_v6_WEB.PDF

Appendix Three

National Audit Office’s Fraud and Error Framework

The Framework assesses an entity's approach to managing fraud and error risks. Based on good practice seen in government entities and the private sector, the overall principle is to understand and target risks and causes in a way that achieves greatest impact, and over time iterate the approach based on information on the efficacy of interventions and residual or new risks, to best direct interventions and drive a sustainable reduction in fraud and error.

Evaluate:

- Does the organisation understand which are the effective key indicators of fraud and error?
- Does the organisation understand what the results of its measurement work tell it about its exposure to fraud and error and the efficacy of its controls?
- How will the organisation use measurement and detected error data to revise and refresh and iterate its approach to fraud and error?

Measure:

- What measurement basis is used to assess fraud and error?
- What balance is appropriate between continuous, 'business as usual' and periodic measurement and evaluation of fraud and error?



Implement:

- How can accuracy in processing be achieved? How will the tension between a manageable workload of controls versus ambition of strategy be managed?
- How will the organisation know whether controls are implemented as designed?
- Are resourcing decisions informed by an impact on controls and fraud and error?

Strategy and governance:

- What is the organisation's fraud and error risk appetite?
- What are the key priorities for fraud and error interventions?
- What are the appropriate governance arrangements for fraud and error in the organisation?
- How do processes and controls align to policy?

Design:

- Are fraud and error risks and entry points understood?
- What data sources are available for verification controls?
- Is the expected cost and impact of each control understood?
- What is the desired balance between 'prevent and detect' activities?

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Conformance with the PSIAS during the coronavirus pandemic

The IASAB has developed this guidance to support heads of internal audit and individual internal auditors in the UK public sector. It has the backing of all of the UK Responsible Internal Audit Standard Setters (RIASS)¹.

All internal auditors of any organisation in countries significantly affected by COVID-19 will be reassessing their work plans and staff priorities. For public sector internal auditors there is an additional responsibility. All staff in a public service body have a responsibility to work in the public interest. At a time of national crisis there is a need to act in the best interests of the health, safety and livelihoods of the public as well as supporting the operational needs of the organisation.

As a result very few internal auditors will be operating under 'business as usual' conditions. At the very least they will be doing the majority of work remotely, and staff in many teams are likely to be taking on different roles to support their organisation and the public interest.

The primary concern of heads of internal audit will be to support their organisation and its functions together with concern for the wellbeing of their staff. They may also be worried that the decisions they take could lead to non-conformance with UK Public Sector Internal Audit Standards (PSIAS²).

This guidance should reassure heads of internal audit and the audit committee that diversion from planned audit work will not automatically mean that they do not conform. There are however some basic steps to take to safeguard the longer-term position of internal audit.

Note that useful additional material is provided in an Information Paper *Doing things differently during the coronavirus pandemic – adjusting to the new normal* which is available on the IASAB website at www.iasab.org. This also links to other useful online resources developed in response to the current crisis.

¹ The Relevant Internal Audit Standard Setters (RIASS) are:

- HM Treasury in respect of central government;
- the Scottish Government, the Department of Finance Northern Ireland and the Welsh Government in respect of central government and the health sector in their territories;
- the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and
- the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

² PSIAS are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) and include additional UK public sector requirements and interpretations.

Mission of Internal Audit

The Mission of Internal Audit is 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.' In the current circumstances internal auditors will be fulfilling their Mission in different ways than usual. However the critical point is that they should still fulfil that Mission. Ideally, this will provide enough assurance to support audit opinions, and for the Governance Statement, although it will certainly be appropriate to draw attention to the context within which this assurance was gained and potential limitations. If it is not possible to achieve sufficient depth or coverage it will be necessary to caveat opinions and/or the Governance Statement, and explain the impact of this and what will be done to retrieve the position in future. However, the key point is to protect organisational value.

Examples of ways that internal audit can protect organisational value are:

- Helping **protect** the organisation's operations by helping management to find new ways of working
- Providing real-time **advice** and **insight** in the development of new systems and controls. For example where the organisation has to implement a new and urgent government policy.
- Ensuring that internal audit's work remains **risk-based**, but continuously reassessed to reflect the significant changes and escalation of risk levels being experienced.
- Providing real-time **assurance** to the board and audit committee on the actions and decisions being made.
- Helping the organisation to understand and plan for longer term risks resulting from the current crisis to **protect** the organisation and its services going forward.

Applying the Standards

Whatever internal audit work is undertaken, it should be in accordance with PSIAS. In practice the operational situation is likely to make this more challenging. Challenges might include:

- **Diversion of internal audit staff to other work:** this may reduce capacity to carry out audit work, capacity to monitor the quality of that work, and may make it harder to manage threats to independence
- **Diversion of operational staff to other duties:** this may make it difficult to access information or obtain responses to audit queries.
- **Home-working of the majority of staff:** depending on the effectiveness of business continuity arrangements in a home-working environment, both internal audit and operational staff may have reduced access to systems and resources. This may be a particular issue for smaller public sector organisations.
- **Increased levels of sickness absence/sick leave:** these may exacerbate the above issues

However each internal auditor retains their personal responsibility for operating in accordance with PSIAS and should aim to act professionally. The Core Principles in the International Professional Practices Framework articulate internal audit effectiveness, and are short and focused reminders of the professionalism of an internal auditor. There will clearly be strains on resources, and this will make it more difficult to maintain quality and adherence with professional standards. There will often be pressures to contribute to the first and second lines of defence rather than providing assurance, and this may in turn create threats to independence which need to be managed.

Key Steps to Take

1. Advise the audit committee and other key stakeholders³ in the governance process of the changes to the audit plan and operations of the internal audit team. A lengthy report is not required but the committee should be made aware. Brief but regular updates should be provided as the situation develops.
2. Maintain regular and constructive communications with external audit. This will help external audit understand how delivery of assurance is being progressed and provide information on changes in the organisation's system of governance and control
3. Where internal audit staff are reassigned to undertake advisory or consultancy work rather than assurance engagements then they should be made aware of the standards relating to consulting activities, if they are not already familiar with them.
4. Where internal audit staff are diverted into operational roles it should be made clear that for the duration that the staff are not operating as internal auditors. When staff return to their internal audit role, a review can be undertaken to see if any steps are necessary to address impairment to independence and objectivity (standard 1130).
5. Keep clear records of the changes to roles and plans. These will help key stakeholders understand the revised arrangements and will help resolve any conflicts of interest later.
6. Remember the Mission of Internal Audit and act in accordance with it. When the immediate crisis is over the head of internal audit should be able to demonstrate how the operation of internal audit has helped fulfilment of the Mission.
7. At all times Internal Auditors should comply with Government advice, and that of their organisation, regarding health and safety during the coronavirus pandemic.

External Quality Assessment

Heads of internal audit may find themselves in a position where an external quality assessment would not demonstrate the expected level of conformance with the PSIAS. While this may be reasonable in the face of the challenges noted above, they should nevertheless plan to recover the conformance position over time. Such plans will need to take a realistic view of continuing disruption to working practices in the light of developing information: it may be appropriate to begin recovery in advance of a return to fully normal working.

Assessors undertaking a PSIAS review in the next year should take into account the significant interruption to business as usual experienced by internal audit teams in the public sector. Assessors may also need to be flexible in order to schedule and conduct their work in a manner which does not interfere with response to the crisis. The IASAB would encourage assessors to have regard to this guidance note.

³ For example, in central government, the Accounting Officer will need to be kept informed of changes to the normal operation of internal audit.

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