



# ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE

WEDNESDAY 25<sup>TH</sup> SEPTEMBER 2013 AT 5.30pm  
COMMITTEE ROOM 1, PARK NORTH, NORTH STREET, HORSHAM

**Councillors:** David Holmes (Chairman)  
Gordon Lindsay (Vice-Chairman)  
John Bailey Jim Rae  
Roy Cornell Stuart Ritchie  
Leonard Crosbie

Tom Crowley  
Chief Executive

## AGENDA

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1. Apologies for absence	
2. To approve as correct the minutes of the meeting of the Committee held on 27 <sup>th</sup> June 2013	1
3. To receive any declarations of interest from Members of the Committee	
4. To receive any announcements from the Chairman of the Committee or the Chief Executive	
5. Audit Results Report for the year ending 31st March 2013 – to be presented by the External Auditor - <b><i>please see separate appendix</i></b>	
6. Letter of Representation 2012/13	11
7. Statement of Accounts 2012/13 ( <b><i>Hard copies of the appendix are available on request or may be viewed online with the agenda at: <a href="http://www.horsham.gov.uk/council/agendas-reports.aspx">http://www.horsham.gov.uk/council/agendas-reports.aspx</a></i></b> )	15 & separate appendix
8. Annual Governance Statement 2012/13	18
9. Treasury Management Activity and Prudential Indicators 2012/13	34
10. Internal Audit – Quarterly Update Report	42

11. Risk Management – quarterly update 50
12. Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances
13. To consider the following exempt or confidential information:

**Reason for exemption**

- |     |  |             |    |
|-----|--|-------------|----|
|     | <u>Report of the Chief Internal Auditor</u>                  |             |    |
| (a) | Internal Audit – Quarterly Update Report on Audit Follow ups | Paragraph 3 | 62 |

**ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE**  
**27<sup>TH</sup> JUNE 2013**

Present: Councillors: John Bailey, Roy Cornell, Leonard Crosbie, David Holmes, Jim Rae, Stuart Ritchie

Apologies: Councillor: Gordon Lindsay

Also present: Councillors: Andrew Baldwin, Duncan England  
Helen Thompson, Audit Director, Ernst & Young

AAG/1 **ELECTION OF CHAIRMAN**

RESOLVED

That Councillor David Holmes be elected Chairman of the Committee for the current Council year.

AAG/2 **APPOINTMENT OF VICE-CHAIRMAN**

RESOLVED

That Councillor Gordon Lindsay be appointed Vice-Chairman of the Committee for the current Council year.

AAG/3 **TIME OF MEETINGS**

RESOLVED

That meetings of the Committee be held at 5.30pm for the ensuing Council year.

AAG/4 **MINUTES**

The minutes of the meeting held on 27<sup>th</sup> March 2013 were approved as a correct record and signed by the Chairman, subject to the amendment of the date in the second line of the second paragraph of minute AAG/40 to read "31<sup>st</sup> March 2012".

AAG/5 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/6 **ANNOUNCEMENTS**

The Committee was advised that, as the External Auditor was unable to attend on the scheduled date, it was likely that the next meeting of the Committee would be rescheduled from 26<sup>th</sup> to 25<sup>th</sup> September 2013. Members would be advised of the revised date as soon as possible.

AAG/7 **PROGRESS MADE IN RESPECT OF THE INTERNAL AUDIT FINDINGS REGARDING REFUSE COLLECTION, THE FUEL RECONCILIATION PROCESS AND FUEL THEFT AT HOP OAST DEPOT**

The Chairman of the Committee invited the Director of Community Services to update the Committee on progress made in respect of the internal audit findings regarding refuse collection, the fuel reconciliation process and fuel theft at Hop Oast Depot.

The Director of Community Services outlined action that had already been taken and the new systems and procedures that would be implemented when a new fuel tank had been installed. It was noted that staff absence during the last year had impacted on the running of the service.

Members raised a number of issues of concern that had been highlighted by the internal audit report and emphasised that it was important that these were all addressed without delay. The Director of Community Services would advise Members by email how many of the actions recommended in the internal audit report had already been implemented and the current position in respect of any outstanding actions.

The Director of Community Services confirmed that the theft had been reported to the police. It was suggested that it might be of value to contact the police and ascertain if they had any data analysis relating to similar incidents.

The Director of Community Services would report back to the Committee in six months' time with a further update on the implementation of new procedures and processes.

AAG/8 **CHAIRMAN'S RESPONSE TO THE LETTER FROM THE AUDITORS ON UNDERSTANDING HOW THE AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT**

The response from the Chairman of the Committee to the letter from the Auditors on understanding how the audit committee gains assurance from management had been circulated for the Committee's information.

In response to a query from Helen Thompson, Audit Director, Ernst & Young, the Chairman confirmed that he was not aware of any undue pressure on the organisation or management to meet particular financial targets. Helen Thompson advised that, in the light of this clarification, she was satisfied with the Chairman's response to the letter.

AAG/9 **AUDIT PROGRESS REPORT**

Helen Thompson, Audit Director, Ernst & Young, gave an update on progress made by the External Auditors in respect of the 2012/13 audit. In particular, she drew attention to two additional audit risks they would be addressing, in respect of accounting for the CenSus partnership and ICT resilience, which had been identified since the Audit Plan had been presented to the Committee.

AAG/10 **AUDIT COMMITTEE BRIEFING**

Helen Thompson, Audit Director, Ernst & Young, advised the Committee that this briefing was produced by Ernst & Young as a means of keeping local government audit committees informed and updated on relevant issues and had been circulated to the Committee for information.

AAG/11 **HORSHAM'S FINANCIAL ACCOUNTS – OUTTURN FOR 2012/13 – REVENUE, CAPITAL AND REPAIR & RENEWALS BUDGETS**

The Chairman of the Committee reminded Members that the financial accounts had been presented to an informal meeting of the Scrutiny & Overview Committee's Finance & Performance Working Group and to the meeting of the Council on 26<sup>th</sup> June 2013.

Some concern was expressed regarding the average length of time taken to fill vacant posts. With regard to the fall in income received from Swan Walk rents, it was acknowledged that improvement and promotion of the town centre was an important tool in maintaining and possibly increasing this income stream. In response to comments regarding underspends on repairs & renewals and capital projects, the Director of Corporate Resources gave a brief update on the current position and advised that the budgeting process for repairs & renewals was being reviewed.

AAG/12 **DRAFT STATEMENT OF ACCOUNTS 2012/13**

The Chairman of the Committee indicated that the draft Statement of Accounts 2012/13 had been circulated for Members' information and that the final version would be submitted to the next meeting of the Committee for approval.

Members were asked to raise any queries they had with the Director of Corporate Resources or the Head of Financial & Legal Services before the next meeting of the Committee, and that such queries and responses should be shared with all Members of the Committee. It was also agreed that an informal meeting would be arranged to enable Members of the Committee to gain a greater understanding prior to the next meeting of the Committee.

AAG/13 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since March 2013.

A summary of audit findings in respect of Creditors (moderate assurance), Business Rates (NNDR), Debtors, Payroll, Treasury Management, Voluntary Sector Grants and Hackney Carriages (all substantial assurance) was submitted.

The Committee noted that the results of the Creditors audit had improved when compared to the previous review in 2011/12 but that the overall audit opinion was still one of moderate assurance. One of the main reasons for this was the relatively low percentage of orders currently processed through the “purchase to pay” system. A number of measures had therefore been agreed as part of the action plan, which would help to increase the percentage in 2013/14.

With regard to the Audit Plan and the setting of a completion target of 85% rather than 100%, the Chief Internal Auditor explained that within any audit plan there needed to be a degree of flexibility to be able to undertake special/unplanned investigations and that the current target of 85% was considered to be appropriate. In the last year 27 out of 31 planned audits had been completed and three special investigations had been undertaken. It was noted that the aim was always to complete the key financial audits each year. The Chief Internal Auditor would advise Members of the planned audits that had been slipped to the current year.

It was noted that the current part-time auditor would be leaving at the end of July and that an appointment had been made to fill this post on a temporary six month contract basis. This would maintain the staffing level at 3.5 full-time equivalents, whilst the required level was reviewed.

The Chief Internal Auditor reported on the current position regarding the percentage of agreed action items implemented in respect of audits undertaken in 2012/13, 2011/12, 2010/11 and 2009/10, together with details of agreed actions not yet implemented, an update for each item (including an assessment of priority) and a revised implementation date. It was noted that there had been a marked improvement in the number of outstanding actions that had now been implemented.

**RESOLVED**

That the summary of audit work undertaken since March 2013 be noted.

AAG/13 Internal Audit – Quarterly Update Report (cont.)

REASONS

- (i) To comply with the requirements set out in the CIPFA Code of Practice for Internal Audit.
- (ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/14 **ANNUAL INTERNAL AUDIT REPORT 2012/13**

The Chief Internal Auditor advised that the annual report had been compiled to:

- Summarise the work undertaken by Internal Audit during 2012/13 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment;
- Summarise the effectiveness of audit work; and
- Provide a statement on conformance with the Public Sector Internal Audit Standards.

The internal audit team worked to a four-year strategic audit plan, prepared by the Chief Internal Auditor, and aimed to review the Council's major areas of operation and systems on a rolling cycle. The strategic plan had been developed using a risk-based assessment which determined priorities and time allocations for each audit. Areas and systems which were considered fundamental to the Council's operations, or which were considered to be high risk, were normally reviewed on an annual basis.

The Council's Internal Audit Service is operated in accordance with the new Public Sector Internal Audit Standards, which had come into effect from 1st April 2013. The new standards required the Chief Internal Auditor to undertake a self-assessment of the internal audit service against a Quality Assurance and Improvement Plan checklist and the results were outlined as part of the Annual Audit Report. It was noted that the Internal Audit Team had maintained its independence throughout 2012/13 in accordance with the Audit Charter.

In order to respond to a number of risk areas identified during the year, the audit plan was sufficiently flexible to allow for additional audits to be undertaken. Details of progress against the annual plan for 2012/13, the implementation of agreed actions, reporting and management feedback was reported.

AAG/14 Annual Internal Audit Report 2012/13 (cont.)

The Chief Internal Auditor was of the overall opinion that substantial assurance could be given that there was generally a sound system of internal control, designed to meet the Council's objectives, and that the controls were generally being applied consistently. Areas of particular comment were highlighted.

The submitted table of internal audit assurance opinions showed the following balance of substantial and moderate audit opinions on individual audit reports:

<b>Internal Audit Opinion</b>	<b>Definition of Opinion</b>	<b>Number in 2011/12</b>	<b>Number in 2012/13</b>
Full Assurance	There is a sound system of control in place which minimises risk to the Council; and audit testing identified that all expected controls are being consistently applied	0	0
Substantial Assurance	Whilst there is basically a sound system of control (i.e. key controls are in place), there are some weaknesses which may place the Council at risk in a few areas; and/or audit testing identified a lack of compliance with controls in a few areas	11	19
Moderate Assurance	There are some weaknesses in the system of control (i.e. the absence of two or more key controls) which is placing the Council at risk in a number of areas; and/or audit testing identified a lack of compliance with two or more key controls	14	8
No Assurance	The system of control is very weak or non-existent, which is placing the Council open to significant risk: and/or audit testing identified a high number of key controls which are not being complied with	0	0

The Chairman of the Committee asked the Chief Internal Auditor to review the moderate assurance ratings to determine whether there were any additional areas that should be mentioned in the Annual Governance Statement.

AAG/14 Annual Internal Audit Report 2012/13 (cont.)

RESOLVED

- (i) That the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems be noted.
- (ii) That the performance of internal audit against performance targets be noted.
- (iii) That the statement of compliance with the Public Sector Internal Audit Standards be noted.

REASONS

- (i) To comply with the requirements set out in the new Public Sector Internal Auditing Standards 2013.
- (ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/15 **DRAFT ANNUAL GOVERNANCE STATEMENT**

The Director of Corporate Resources submitted the Annual Governance Statement (AGS) in draft form for Members' information. The Statement was designed to demonstrate how the Council delivered good governance and to meet the requirements of the Accounts and Audit (England) Regulations 2011.

The AGS would be submitted for final approval by the Committee at its next meeting in September and Members were asked pass any comments to the Director of Corporate Resources and the Chairman of the Committee.

In response to the Chairman's suggestion that the planned management restructure and future commissioning should be referred to in the AGS, the Committee was advised that this would not be appropriate as the AGS related to the Council's control framework/environment for 2012/13. A more appropriate course of action would be to include these issues in the Corporate Risk Register at the appropriate time.

AAG/16 **INTERNAL AUDIT – PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

The Chief Internal Auditor provided the Committee with details of the new Public Sector Internal Audit Standards, which had come into effect on 1<sup>st</sup> April 2013 and replaced the CIPFA Code of Practice for Internal Audit.

The new Public Sector Internal Audit Standards clearly set out the governance responsibilities in relation to Internal Audit, with the main responsibilities of the Accounts, Audit & Governance Committee being to:

- Review and approve the Internal Audit Charter.
- Review and approve the Internal Audit Strategy.
- Review and approve the Annual Internal Audit Plan.
- Receive communications from the Chief Internal Auditor on Internal Audit activity's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there was any scope or budgetary limitation that impeded the ability of the internal audit activity to execute its responsibilities.

The Internal Audit Charter, which detailed Internal Audit's terms of reference, had last been approved by the Committee in March 2011. The Charter had now been re-written to incorporate the requirements of the new Public Sector Internal Audit Standards and was submitted for approval.

A Quality Assurance and Improvement Programme review (internal assessment) had also been completed, which indicated no significant issues with the operation of the internal audit service, although a few areas of potential non-compliance had been identified and were being addressed.

**RESOLVED**

- (i) That the responsibilities of the Accounts, Audit & Governance Committee as detailed in the standards be noted.
- (ii) That the key issues relating to the new Public Sector Internal Audit Standards be noted.
- (iii) That the revised Internal Audit Charter be approved.
- (iv) That the outcome of the Quality Assurance & Improvement Programme Self Assessment be noted and an update be submitted to the December meeting of the Committee.

AAG/17 **RISK MANAGEMENT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor presented the latest quarterly update in respect of the Corporate Risk Register.

It was noted that the corporate risk register had been fully reviewed by the Corporate Management Team and that risks CRR29 (Pressure on the Council's finances due to the localisation of Council Tax Benefit) and CRR36 (relating to the implementation of the Localism Act) had been removed, as agreed at the last meeting of the Committee, as risk exposure was currently assessed as low. Corporate Management Team had also agreed that CRR30 should be removed, as the financial risk had now been quantified as 7.5% and would be limited to a figure of £135,000. Risks CRR40 (relating to the possible loss of planning appeals due to a shortfall in the five year land supply) and CRR41 (relating to increased risk of loss of IT services through unforeseen circumstances due to the lack of a tested Disaster Recovery Plan) had been added as new risks.

Members expressed continued concern regarding the lack of progress in respect of CRR05 (Information security) and there was some criticism of the awareness training recently provided for elected Members. The Director of Corporate Resources indicated that the training was intended to be an initial introduction to the concept of information security and any subsequent messages or training would be more hard-hitting.

The Director of Corporate Resources also indicated that Business Continuity and Disaster Recovery would be addressed in the autumn.

A summary of the matters discussed at the latest meeting of the Operational Risk Management Group was submitted.

**RESOLVED**

- (i) That the updated Corporate Risk Register be approved.
- (ii) That the main points of discussion at the recent Operational Risk Management Group meeting be noted.
- (iii) That the progress made in respect of departmental risk registers be noted.

**REASON**

To ensure that the Council has adequate risk management arrangements in place.

AAG/18 **URGENT MATTERS**

There were no urgent matters to be considered.

AAG/19 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED

That, under Section 100A(2) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information, as defined in Part I of Schedule 12A of the Act, by virtue of the paragraph specified against each item, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AAG/20 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT (PARAGRAPH 3)**

The Committee considered the detailed information submitted concerning the implementation of agreed actions arising from internal audit reports.

It was suggested that, in future, there should be a covering report that highlighted the more critical issues within the overall schedule.

The meeting finished at 7.55pm having commenced at 5.30pm.

**CHAIRMAN**

# **Horsham District Council**

Audit results report for the year ended 31 March 2013

September 2013

Ernst & Young LLP



**Private and confidential**

Accounts, Audit & Governance Committee  
Horsham District Council  
Park North  
North Street  
Horsham  
West Sussex  
RH12 1RL

16 September 2013

Dear Sirs

**Audit results report**

We are pleased to attach our audit results report for the forthcoming meeting of the Accounts, Audit & Governance Committee. This report summarises our preliminary audit conclusion in relation to Horsham District Council's (the Authority's) financial position and results of operations for 2012/13. We will issue our final conclusion after the Accounts, Audit & Governance Committee scheduled for 25 September 2013.

The audit is designed to express an opinion on the 2012/13 financial statements, reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and material internal control findings.

This report is intended solely for the information and use of the Accounts, Audit & Governance Committee and the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Accounts, Audit & Governance Committee meeting scheduled on 25 September 2013.

Yours faithfully  
For and on behalf of Ernst & Young LLP



**Helen Thompson**  
Ernst & Young LLP  
United Kingdom  
Enc.

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the **Audit Commission's website**.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

# 1. Overview of the financial statement audit

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of the governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

## Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Authority's financial statements. Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

### Other financial statement risks:

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#### Accounting for Property Plant and Equipment

- ▶ The Authority uses excel spreadsheets to produce its figures and disclosures for property, plant and equipment. The process in previous years has not produced a clear and easily understandable audit trail.
- ▶ Working with officers in the period before the preparation of the financial statements, we set out our findings from the previous years and our expectations for this year's working papers. This was taken on board by officers, and the audit trail was much improved compared to previous years.

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#### Risk of misstatement due to fraud and error

- ▶ Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.
- ▶ We undertook procedures required by auditing standards, and have no issues to report to you.

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#### Accounting for CenSus

- ▶ The Authority has identified that in previous years it has incorrectly accounted for its participation in the CenSus partnership.
  - ▶ We reviewed working papers provided by the Authority to establish the impact of the error in prior years, and agreed that no prior period adjustment was required.
  - ▶ We reviewed the accounting within the 2012/13 financial statements, and have no matters to report.
- 

## Economy, efficiency and effectiveness

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion.

## Whole of Government accounts

We have completed the work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts. We have no issues to report.

**Control themes and observations**

Our audit identified no control issues that we need to bring to your attention.

**Summary of audit differences**

Our audit identified few misstatements in the accounts presented for audit, and management has corrected all issues raised. There was no impact on the Comprehensive Income & Expenditure statement or Balance Sheet, or to reserves.

## 2. Scope

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan that we issued on 18 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

We carried out our work in accordance with our Audit Plan.

### 3. Significant findings from the financial statement audit

In this section of our report, we outline the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk outlined in our Audit Plan.

Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

#### Accounting for property, plant and equipment

The Authority uses excel spreadsheets to produce its figures and disclosures for property, plant and equipment. The process in previous years has not produced a clear and easily understandable audit trail.

Working with officers in the period before the preparation of the financial statements, we set out our findings from the previous years and our expectations for this year's working papers. This was taken on board by officers, and the audit trail was much improved compared to previous years.

#### Risk of misstatement due to fraud and error

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

We undertook procedures required by auditing standards, outlined in our Audit Plan.

We have no issues to report to you.

#### Accounting for CenSus

The Authority has identified that in previous years it has incorrectly accounted for its participation in the CenSus partnership.

We reviewed working papers provided by the Authority to establish the impact of the error in prior years, and agreed with its judgement that no prior period adjustment was required.

We reviewed the accounting within the 2012/13 financial statements, and have no matters to report.

## 4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that Horsham District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Authority's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The table below presents the findings of our work in response to the risk areas or areas of focus presented to you in our Audit Plan, as well as any additional risks or areas of focus identified since that time.

Other risks/areas of focus:	Impacts arrangements for securing:	Key findings:
<b>Financial standing</b>		
The Authority continues to experience funding challenges from national policies.	Economy, efficiency and effectiveness Financial resilience	<ul style="list-style-type: none"> <li>▶ The Authority delivered its 2012/13 budget.</li> <li>▶ We reviewed the Authority's 2013/14 budget and updated medium term financial projections, and assessed the current assumptions as reasonable.</li> <li>▶ A significant change for the Authority is that it has implemented a transformation programme, linked to the annual budget and medium term finances. In our judgement this is adequately monitored and managed, to achieve its planned outcomes and efficiency savings.</li> </ul>
<b>National Fraud Initiative.</b>		
The Authority's response to the National Fraud Initiative in previous years has been unstructured, and recommendations have been made to improve the coordination and follow-up of data matches.	Economy, efficiency and effectiveness	<ul style="list-style-type: none"> <li>▶ The Authority has improved its response to the National Fraud Initiative.</li> <li>▶ There is still no project plan to complete the tasks, but its importance is clearly understood.</li> <li>▶ Review of data matches is on track for completion by the required deadlines, and number of reports and matches have already been reviewed and closed.</li> </ul>
<b>ICT resilience</b>		
The Authority operates the ICT services of the CenSus partnership. One of the partners experienced a significant system failure, resulting in the identification of weaknesses within the service.	Economy, efficiency and effectiveness	<ul style="list-style-type: none"> <li>▶ We reviewed the Authority's response to the action plan, including taking the views of partners.</li> <li>▶ It is making good progress in implementing the prioritised action plans.</li> <li>▶ In our judgement neither the initial failure, nor the additional costs being incurred by the Authority, constitute a significant weakness in corporate arrangements.</li> </ul>

## 5. Control themes and observations

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

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

### 5.1 Current year observations

We have no issues to report

### 5.2 Challenges for the coming year

Description	Impact
The Authority intends to implement its new fixed asset system	Changing financial systems can potentially increase the risks of material misstatements. The Authority needs to implement adequate change controls with adequate resourcing and parallel running if possible to ensure the material accuracy of the new system and the information entered into it.

## 6. Status of our work

### 6.1 Financial statement audit

Our audit work in respect of our opinion on the Authority's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be tabled discussed at the Accounts, Audit & Governance Committee on 25 September 2013.	Management and the Accounts, Audit & Governance Committee

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Authority's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

### 6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion in regard to the Authority's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

### 6.3 Objections

We have received no objections to the 2012/13 financial statements from members of the public.

## 7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2012/13 £'000	Planned fee 2012/13 £'000	Scale fee 2012/13 £'000
<b>Total Audit Fee – Code work</b>	<b>65,892</b>	<b>65,892</b>	<b>65,892</b>
Certification of claims and returns	15,050*	15,050	15,050
Non-audit work (Review of capital business case)	12,500	12,500	-

Our actual fee is in line with the agreed fee.

*\*Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance within the Audit Certification Report for 2012/13.*

## 8. Summary of audit differences

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

All issues raised during the audit have been highlighted to management, and corrected. We have no issues to report to you.

There were no uncorrected misstatements.

## 9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 18 March 2013. We complied with the Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Accounts, Audit & Governance Committee on 25 September 2013.

## Appendix A Required communications with the Accounts, Audit & Governance Committee

There are certain communications that we must provide to the Accounts, Audit & Governance Committee. These are detailed here:

Required communication	Reference
<b>Terms of engagement</b>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	Audit Plan – issued 18 March 2013
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	Audit results report – we have no issues to report.
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit results report – there were no uncorrected misstatements
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Enquires made to the March AAG committee. No identified fraud or indications that fraud may exist to report to you.
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report – there are no significant matters to report.

Required communication	Reference
<b>External confirmations</b> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report – there are no matters to report
<b>Consideration of laws and regulations</b> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	Audit results report – there are no matters to report
<b>Independence</b> Communication of all significant facts and matters that bear on EY's objectivity and independence  Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Plan and update in section 8 of this report
<b>Going concern</b> Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report – there are no matters to report
<b>Significant deficiencies in internal controls identified during the audit</b>	Audit results report – there are no matters to report
<b>Opening Balances (initial audits only)</b> <ul style="list-style-type: none"> <li>▶ Findings and issues regarding the opening balance of initial audits</li> </ul>	Audit results report – there are no matters to report
<b>Fee reporting</b> <ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).</li> </ul>	Audit Plan and Audit results report
<b>Summary of certification work undertaken</b> <ul style="list-style-type: none"> <li>▶ Annual report to those charged with governance summarising the certification work undertaken</li> </ul>	Annual Certification Report – to be issued.

## Appendix B Letter of representation

[To be prepared on the entity's letterhead]

[Date]

Helen Thompson  
EY  
Wessex House  
19 Threefield Lane  
Southampton  
SO14 3QB

This representation letter is provided in connection with your audit of the financial statements of Horsham District Council ('the Council') for the year ended 31 March 2013. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Horsham District Council as of 31 March 2013 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify – nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

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

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
2. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

## **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by 'whistle-blowers'), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

## **C. Compliance with Laws and Regulations**

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - ▶ Additional information that you have requested from us for the purpose of the audit and
  - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting of the Cabinet on the 19 September 2013.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and there are no guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

#### **F. Subsequent Events**

1. Other than described in Note 4 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - ▶ We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - ▶ The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - ▶ The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - ▶ No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **H Retirement benefits**

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

**Use of the Work of an Expert**

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

*Yours Faithfully,*

---

Director of Corporate Resources

I confirm that this letter has been discussed and agreed at the Accounts, Audit & Governance Committee on 25 September 2013

---

Chairman of Accounts, Audit & Governance Committee

EY | Assurance | Tax | Transactions | Advisory

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E-mail: [katharine.eberhart@horsham.gov.uk](mailto:katharine.eberhart@horsham.gov.uk)  
Direct line: 01403 215300  
Contact: Katharine Eberhart  
Date: 25<sup>th</sup> September 2013

Helen Thompson  
Ernst & Young  
Wessex House  
19 Threefield Lane  
Southampton  
SO14 3QB

Dear Helen,

This representation letter is provided in connection with your audit of the financial statements of Horsham District Council ("the Council") for the year ended 31 March 2013. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Horsham District Council as of 31 March 2013 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

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

#### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

#### **C. Compliance with Laws and Regulations**

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

#### **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that you have requested from us for the purpose of the audit and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting of the Council on the 4th September 2013.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and there are no guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

#### **F. Subsequent Events**

1. Other than described in Note 4 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognized or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **H Retirement benefits**

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

## Use of the Work of an Expert

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

*Yours Faithfully,*

---

Director of Corporate Resources

I confirm that this letter has been discussed and agreed at the Accounts, Audit & Governance Committee on 25 September 2013

---

Chairman of the Accounts, Audit & Governance Committee

## **Report to Accounts, Audit and Governance Committee**

25<sup>th</sup> September 2013

By the Director of Corporate Resources

**DECISION REQUIRED**

Not exempt



### **Statement of Accounts 2012/13**

#### **Executive Summary**

It is a requirement of the Accounts and Audit (England) Regulations 2011 that the statutory Statement of Accounts is approved by a resolution of the Council or the relevant Committee of the Council by 30<sup>th</sup> September. The accounts have been subject to audit and the Audit Results Report is elsewhere on the agenda for this meeting.

#### **Recommendations**

The Committee is recommended:

- i) To approve the 2012/13 Statement of Accounts

#### **Reasons for Recommendations**

- i) It is a requirement of the Accounts and Audit (England) Regulations 2011 that the Statement of Accounts is approved by 30<sup>th</sup> September.
- ii) It is expected that an unqualified audit opinion will be issued on the Statement of Accounts.

#### **Background Papers**

**Consultation**      **External Auditors**

**Wards affected**      **All**

**Contact**      Katharine Eberhart/Sue McMillan   Ext 5300/5302

## **Background Information**

### **1 Introduction**

#### **The purpose of this report**

- 1.1 It is a requirement of the Accounts and Audit (England) Regulations 2011 that the statutory Statement of Accounts is approved by a resolution of the Council or the relevant Committee of the Council by 30<sup>th</sup> September. This report provides background information to the statements.

### **2 Format of the Accounts**

- 2.1 The format of the accounts follows the requirements of the CIPFA Code of Practice on Local Authority Accounting 2011/12 and is based on International Financial Reporting Standards.

### **3 Core Financial Statements and Notes**

#### **Comprehensive Income and Expenditure Statement 2012/13**

- 3.1 There is one material item of income and expenditure within the CIES which has not arisen as a result of the ordinary activities of the authority during the year. This relates to a refund of VAT on Trade Waste income and amounts to £120k net. Since 1st February 2011, following a policy review by HM Revenues and Customs, the provision of trade waste collection has been treated as a non-business service so the claim to HMRC was for the period April 1974 to January 2011 when the service was treated as VATable. Full details are included in Note 3 of the Notes to the Core Financial Statements.
- 3.2 In previous years, the authority has accounted for the entirety of Census ICT expenditure in its accounts, netting off the contributions received from partner authorities for their share of the costs. In the case of the Census revenues and benefits service the accounts have included the Council's contribution to the costs of the host authority, Mid Sussex District Council. This year we have identified that the total costs of Census should be shown in each of the partner authority's accounts, in proportion to that authority's agreed share. We assessed the impact of this change on last year's accounts and concluded that no prior period adjustment was necessary.

#### **Balance Sheet as at 31 March 2013**

- 3.2 The Balance Sheet shows the assets and liabilities of the authority at 31<sup>st</sup> March 2013. The Council's net worth has decreased by £4.1m during 2012/13. This is a result of a number of factors including a downward revaluation of the Council's

share of the Swan Walk freehold, the sale of land at Southwater and an increase in the actuarial value of the pension liability. This has been offset by an increase in revenue reserves of £1.5m and of capital reserves (receipts and Section 106 contributions) of £3.5m.

3.3

The Pension Liability is the net actuarial assessment of the fund's assets and liabilities at the Balance Sheet date. Details are provided in Note 36. The valuation does not have an immediate impact on the Council's contribution to the Fund. Contributions are re-assessed every three years on the basis of a full actuarial valuation. This is being undertaken at the moment to affect contributions from 2014/15 and will take account of the changes to pensions due to come into effect in April 2014.

## **4 Staffing Consequences**

4.1 There are no staffing consequences arising from this report.

## **5 Financial Consequences**

5.1 There are no financial consequences arising specifically from this report.

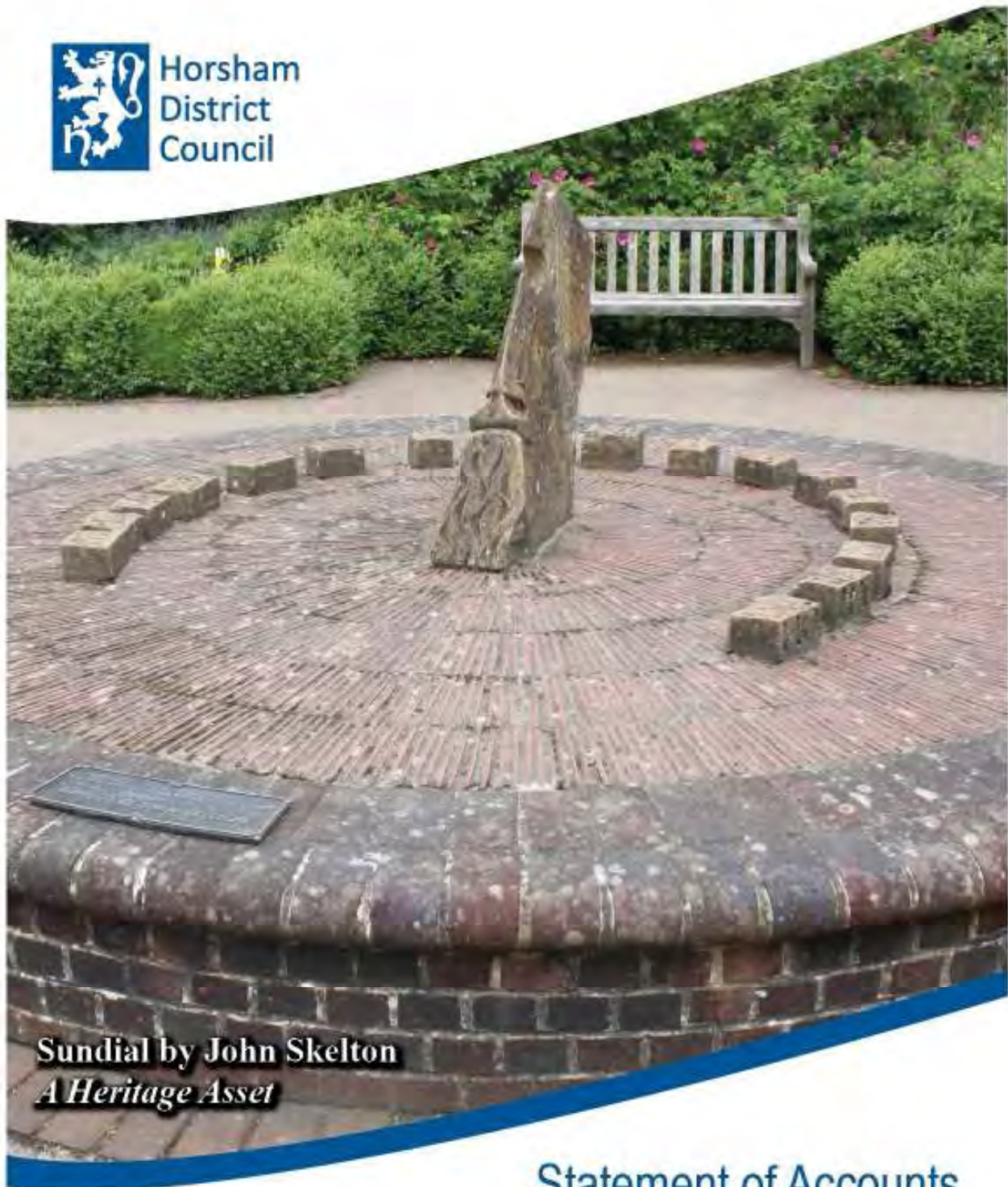
## Appendix 1

### Consequences of the Proposed Action

What are the risks associated with the proposal?	There are reputational risks to the Council if the accounts are not approved by 30 <sup>th</sup> September 2013.
Risk Assessment attached Yes/No	No
How will the proposal help to reduce Crime and Disorder?	There is no impact on Crime and Disorder.
How will the proposal help to promote Human Rights?	There is no impact on Human Rights.
What is the impact of the proposal on Equality and Diversity?	There is no impact on Equality and Diversity.
Equalities Impact Assessment attached Yes/No/Not relevant	Not relevant.
How will the proposal help to promote Sustainability?	There is no impact on Sustainability. The accounts will be published on the Council's website.



Horsham  
District  
Council



**Sundial by John Skelton**  
*A Heritage Asset*

## Statement of Accounts 2012/13

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## EXPLANATORY FOREWORD

### INTRODUCTION

Welcome to Horsham District Council's Statement of Accounts for 2012/13. The accounts provide a record of the Council's financial position and performance for the year. They are presented on an International Financial Reporting Standards (IFRS) basis having been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. They cover the reporting period 1 April 2012 to 31 March 2013.

The purpose of the financial statements is to provide information about the financial position and financial performance of the authority during the year. The statements are complex and so notes accompany them to enable the reader to interpret the key elements of the accounts.

The foreword aims to provide a context to the accounts to aid the reader in understanding the Council's financial position and performance for the year. It provides an overview of the main financial results covering both revenue and capital activities. Revenue spending is generally on items that are consumed in the financial year and is financed from Council Tax, government grant, contributions from non-domestic rates and charges for services. Capital expenditure relates to the acquisition, creation or enhancement of assets that yield benefits for more than one year and is financed by grants, contributions, loans and capital receipts generated from the disposal of assets.

### HORSHAM DISTRICT

Horsham District covers a large area of open countryside, small towns, villages and hamlets in the county of West Sussex. There are 32 parishes each with its own parish council. The population is around 130,000 people with over 45,000 of these living in Horsham and the immediate area. Billingshurst, Southwater and Steyning are the other main centres of population with the remaining residents living in parishes with populations ranging from 200 to 5,000.

Horsham is situated within the Gatwick Diamond, the economic centre of Sussex and Surrey, a high performing sub regional economy and overall one of the top performing 'Diamonds' in the South East. It has a strong administrative and service sector together with a thriving retail sector which has benefited from redevelopment over the past 20 years. There are more than 5,000 businesses in the area made up of both local and large multi-national companies.

### THE DISTRICT PLAN

The Council has set out its aims in its District Plan 2011 – 2015, under six key headings:-

**Economic Development** – planning for a successful economy with high levels of employment

**Efficiency and Taxation** – delivering excellent value and high performance

**Arts, Heritage and Leisure** – building an arts, leisure and cultural reputation that also supports our economy

**Living Working Communities** – working together to support the life of local communities

**Environment** – working towards a better environment for today and tomorrow

**Safer and Healthier** – improving health and wellbeing

The District Council has adopted the Cabinet model of governance with a Leader and Deputy Leader and Cabinet Members each with responsibility for one aspect of the District Plan. Much decision making is delegated to Cabinet Members or Committees but major items of policy remain the responsibility of the Cabinet or the whole Council. It is the whole Council which approves the Council's expenditure plan, the budget, as part of the process of setting the Council Tax each year.

## BUDGET 2012/13

The Council approved a net General Fund Revenue budget for 2012/13 of £12.785m at the formal meeting on 22<sup>nd</sup> February 2012. This was to be funded by £3.937m general government grant, £406k of Council tax freeze grant and £8,087m of Council tax. In addition, the Council collected £2.280m on behalf of Parish Councils within the District.

The budget envisaged that £355k of general reserves would be required to balance the budget, with receipts of New Homes Bonus in year to be transferred to the General Fund Balance. This Explanatory Foreword explains how the Council performed compared to its planned budget and how this relates to its formal financial statements.

## THE FINANCIAL STATEMENTS

The accounts show the core financial statements grouped together, along with detailed disclosure notes.

The core financial statements include:-

**The Movement in Reserves Statement (MiRS).** This shows the movement in reserves during the year, split between those reserves which are available for the Council to spend (usable reserves) and those that have been created to reconcile the technical aspects of accounting (unusable reserves)

**The Comprehensive Income and Expenditure Statement (CIES).** This consolidates the gains and losses experienced by the Council during the year

**The Balance Sheet.** This shows the Council's financial position at 31 March each year. The top part of the statement shows the assets and liabilities of the Council and the lower part shows the Council's reserves.

**The Cash Flow Statement.** This summarises the changes in cash and cash equivalents during the year.

A supplementary statement **the Collection Fund**, shows the collection and distribution of Council Tax and Non- Domestic Rates (NNDR) income.

## REVENUE OUTTURN FOR 2012/2013

The Council monitors its expenditure and income against budget on a monthly basis and reports to Cabinet quarterly. The revenue and capital outturn report for 2012/13 was reported to the Council and to the Accounts, Audit and Governance Committee in June 2013.

The variance against original budget was reported as an under spend of £912k. This was due to a number of windfall gains and savings on salary and other costs. The gains included a £120k VAT refund relating to prior years and unbudgeted grant receipts of £142k for improved recycling initiatives and £84k for costs associated with the localisation of Council Tax support. In addition the Council re-let its Leisure contract on 1<sup>st</sup> December 2012 after a procurement exercise, which has resulted in savings of £190k against budget.

After allowing for the original budgeted transfers to reserves and other transfers to earmarked reserves, the under-spend has given rise to an in-year surplus on the General Fund of £1.083m as shown below.

	£000
Outturn variance reported	(912)
Budgeted transfer from General Fund Balance	355
New Homes Bonus transferred to General Fund Balance	(707)
Transfers from General Fund to earmarked reserves	248
Other financing adjustments	(67)
Surplus on General Fund	<u>(1,083)</u>

While the General Fund shows a net surplus of £1.083m on expenditure and income transactions in the year, the Comprehensive Income and Expenditure Statement shows a deficit for the year of £4.118m, comprising a deficit on the provision of services of £1.539m and a further deficit on the revaluation of fixed assets and on the actuarial value of pension assets and liabilities of £2.579m.

The Comprehensive Income and Expenditure Statement takes a wider view of financial performance than that shown in the General Fund and shows the true accounting position for the year. This deficit for the year represents the total amount by which the Council's overall net worth has decreased over the year as shown in the Balance Sheet.

In addition to the net General Fund surplus of £1.083m and the net revenue surplus on other earmarked reserves, it also includes the following major items:

- i) **A charge for the depreciation and impairment of assets.** The depreciation charge of £2.210m is a charge for the use of assets that reflects the notional consumption of assets during the year, whilst the impairment charge of £4.898m reflects a reduction in the valuation of assets during the year.
- ii) **A charge for revenue expenditure funded from capital under statute (REFCUS).** A charge of £0.760m is made for expenditure which under proper accounting practice meets the definition of revenue expenditure, but which under statute can be funded from capital resources. It mainly relates to grants made for a capital purpose, such as grants for disabled facilities.
- iii) **A credit for capital grants and contributions.** Capital grants and contributions of £3.106m have been credited in accordance with proper accounting practice. However these grants are used to fund the Council's capital programme and do not fall into the General Fund.
- iv) **A charge for pensions** of £0.560m representing the difference between the accounting cost of pensions (as estimated by the Pension Fund actuary in accordance with IAS19) and the actual employer contributions paid to the West Sussex Pension Fund. Further details of the movement in the pension fund liability are shown in Note 36.
- v) **A gain on the disposal of fixed assets** of £327k. When an asset is disposed of, the difference between the sale proceeds and the carrying value of the asset must be charged to the Comprehensive Income and Expenditure Statement.
- vi) **Other technical adjustments** relating to financing costs, council tax and officer remuneration.

In addition local authorities are required by statute to set aside each year some of their revenue to provide for repayment of debt in respect of capital expenditure financed by borrowing or credit arrangements, known as the **Minimum Revenue Provision (MRP)**. In 2012/13 the amount set aside was £751k. This is a charge to the General Fund which is not shown in the Comprehensive Income and Expenditure Statement.

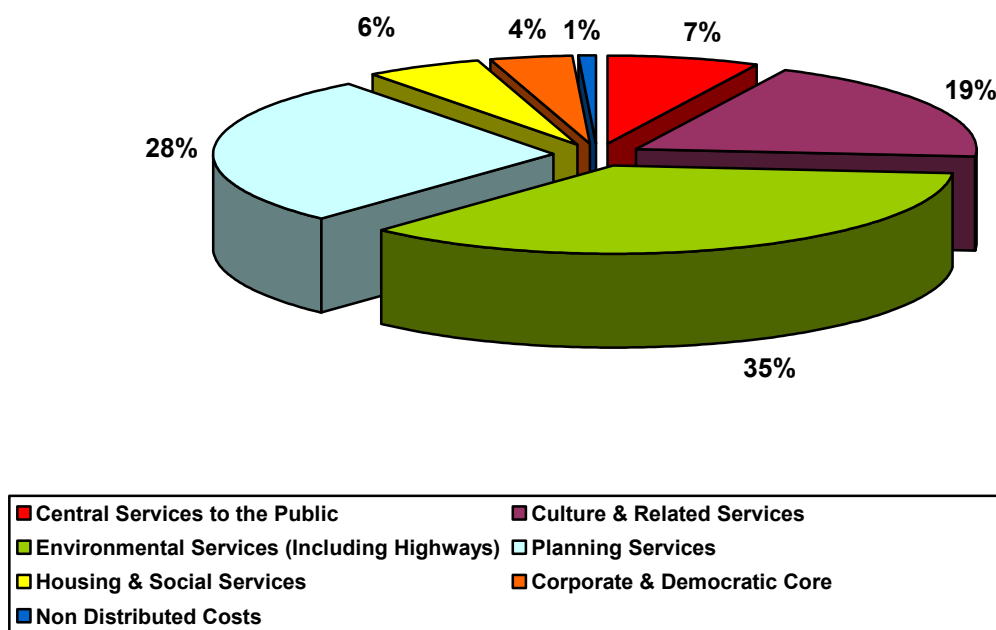
The table below summarises these accounting adjustments:-

	£000
<b>Surplus on General Fund</b>	<b>(1,083)</b>
Income/expenditure direct from earmarked reserves	(240)
Transfers to/from earmarked reserves	(248)
<b>Accounting adjustments</b>	
Charge for depreciation and impairment	7,108
Revenue expenditure charged to capital	760
Capital grant income	(3,106)
IAS19 pension costs	(560)
Gain/loss on disposal of assets	(326)
Minimum Revenue Provision	(751)
Other technical adjustments	(15)
<b>Deficit on provision of services per CIES</b>	<b><u>1,539</u></b>

While the Comprehensive Income and Expenditure Statement shows the true accounting position for the year, it is the General Fund position which is the more important for residents of the district. Certain items that are charged under accounting rules, such as depreciation, impairment, capital grants and actuarially assessed pension charges, are eliminated from the General Fund, leaving the net costs, which after crediting revenue income and grants are those to be met by the Council Tax payers.

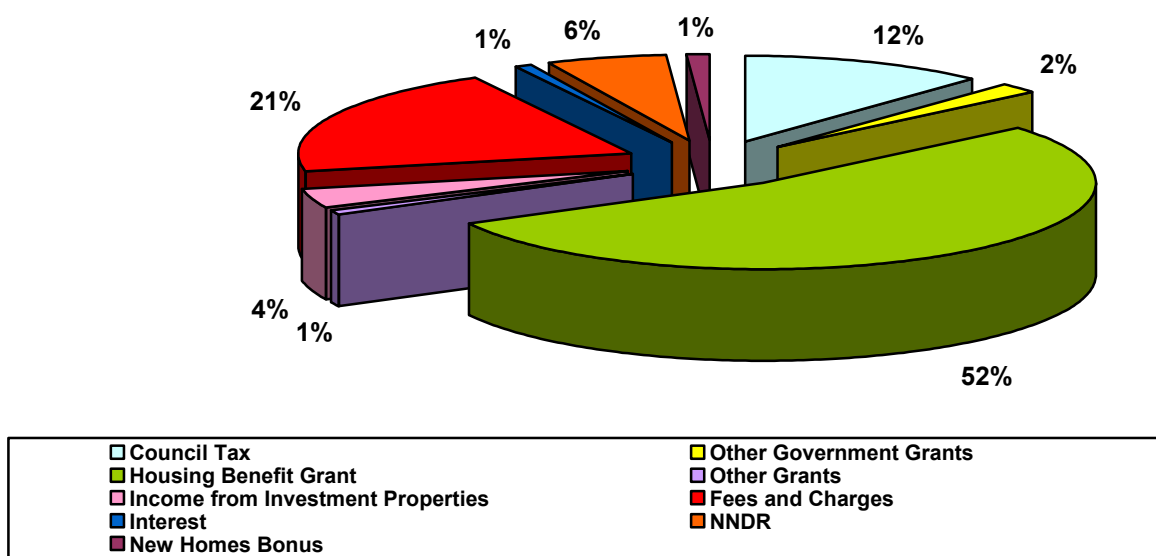
## NET COST OF SERVICES - HOW THE MONEY WAS SPENT

The chart below shows the net cost of Council services as a percentage of the total net cost of the services provided by the Council. The figures exclude the year end accounting non cash costs charged to the services such as depreciation and impairment costs and the pension adjustments..



## SOURCES OF FINANCE OF THE COUNCIL'S REVENUE ACTIVITIES

The chart below shows how Horsham District Council met the cost of its services in 2012/13 and what Percentage each makes up of the total financing:

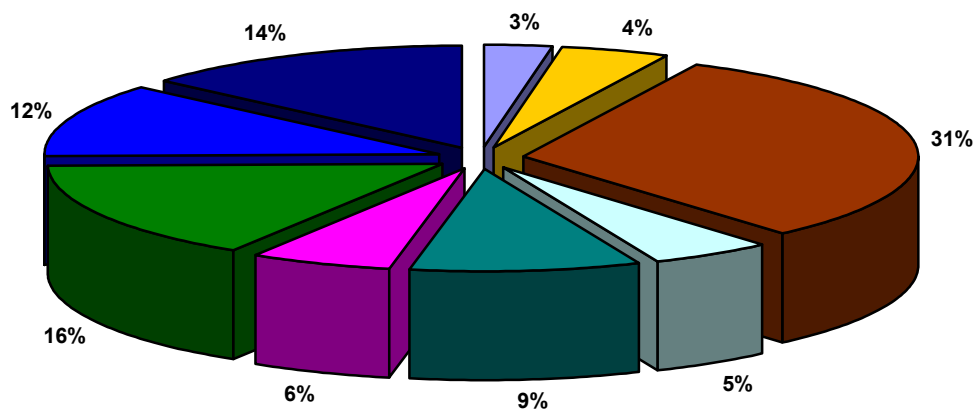


## CAPITAL EXPENDITURE

In 2012/13 the Council invested £1.861m in a range of capital schemes (shown below).

The capital expenditure in the year was financed by:

Usable capital receipts	£1.210m
Government grants and other contributions	£0.549m
Revenue contributions	£0.102m



Office re-modelling	Data Centre	Disabled Facilities Grants
Home Repairs	Park Access Improvement	Vehicles
Swan Walk Centre	Oakhurst Business Park	Other

The following investments are planned as part of the Council's Capital Programme:

	<b>2013/2014 £000</b>	<b>2014/2015 £000</b>	<b>2015/2016 £000</b>	<b>2016/2017 £000</b>
Warnham Mill Pond Reservoir	634	16		
ICT Projects	1463			
Asset Enhancement		200	200	
Swimming Pools	985	500	500	500
Broadbridge Heath Leisure Centre-New build			7,387	
Other Leisure Projects	342	200	200	200
Disabled Facilities Grant	713	713	713	713
House Purchasing–Temp Accommodation	1,864			
Home Repair and Renovation Grants	125	125	125	125
Housing Enabling Grants	500	1,000	1,500	
Vehicles	1,152	334	442	1,645
Car Parks	730	100	225	100
Commercial Estates		100	100	100
Hop Oast Depot relocation		2,000		
Other	643	59	300	50

### **FINANCIAL POSITION AT 31<sup>ST</sup> MARCH 2013**

The net worth of the District Council is shown in the Balance Sheet. It has declined by £4.1m from 31<sup>st</sup> March 2012. This is a result of accounting adjustments related to fixed assets and pensions rather than a reduction in the Council's usable reserves which have increased by £4.9m.

Property, Plant and Equipment value has reduced by £4.0m as a result of the depreciation charged for the year and the re-categorisation of Oakhurst Business Park (phase 3) in 2012/13 to an investment property.

Investment Property value has reduced by £3.7m, largely as a result of a downward reassessment of the value of the Council's freehold interest in Swan Walk shopping centre.

Pension Liability has increased by £2.1m to £10.940m. This is a snapshot actuarial assessment at the Balance Sheet date and does not mean that the fund will not be able to pay benefits due in the future. Asset values of the Fund can increase in the future and changes to the Scheme have been agreed from 1<sup>st</sup>

April 2014. A full triennial valuation of the Fund is underway which will assess the level of contributions payable by the Council as employer from April 2014.

Usable Reserves have increased by £4.9m, revenue reserves by £1.5m and capital reserves by £3.4m. The capital reserves will be used to fund the future capital programme. Further details on reserves can be found in the notes to the accounts.

### **LONG TERM BORROWING**

The Council has a single £4m loan which is repayable over 10 years at an interest rate of 3.38%. No new long term borrowing was entered into in 2012/13.

### **GENERAL FUND REVENUE RESERVE**

The General Fund Revenue Reserve was established in 1988/89 to provide finance to meet future expenditure arising from capital and revenue projects. It had a balance of £8.666m as at 31<sup>st</sup> March 2012. At 31<sup>st</sup> March 2013, this balance has been amalgamated with the General Fund Balance, giving a total balance at that date of £10.013m.

### **NEW HOMES BONUS RESERVE**

A new reserve has been created by transfer from the General Fund Balance of the sum of £1.148m which represents the amounts received in New Homes Bonus in 2011/12 and 2012/13. This will enable the Council to make decisions at a later date, once the Council's future financial position is clearer, about the possible use of this sum to fund infrastructure and other costs in the areas which have seen significant housing development. Receipts of New Homes Bonus in 2013/14 will be used to fund the revenue account.

### **FINANCIAL OUTLOOK**

The current economic situation is putting considerable strain on the finances of the Council. Central government grant has declined rapidly in the last three years, with further reductions already notified for 2014/15 and expected for 2015/16 and beyond. There are also a number of changes to the way local authorities are funded taking place in 2013/14, including the localisation of business rates and of Council Tax Support (formerly Council Tax benefits).

The Council adopted a new Medium Term Financial Strategy in October 2012 and sought to raise additional income, particularly by introducing a charge for the green waste service, to protect services in 2013/14. It has embarked on a programme of Business Transformation with the intention of reducing costs in order to protect the services it offers to residents.

The Council also faces new pressures from the provisions of the Localism Act 2011, such as the need to support the development of Neighbourhood plans across the District.

The Medium Term Financial Strategy will be reviewed in July 2013. The Director of Corporate Resources will report to the Council on the basis of the latest information available, so that the risks and opportunities can be considered and evaluated.

### **CHANGES IN ACCOUNTING POLICIES**

There has been no change in the preparation and presentation of the accounts in 2012/13.

### **NOTES TO THE ACCOUNTS**

Where the core financial statements have note numbers identified against balances, it indicates that the corresponding note to the accounts provides additional detail as to what the balance includes or represents. It does not mean that the note will always provide a full analysis of the balance itself.

**ANNUAL GOVERNANCE STATEMENT**

The Council also has a statutory requirement under Regulation 4 of the Accounts and Audit (England) Regulations 2011 to conduct a review at least once a year of the effectiveness of its system of internal control. An Annual Governance Statement is prepared to provide assurance that the statement of accounts gives a true and fair view of the Council's financial position at the year end and its financial performance during the year. The Annual Governance Statement is signed and reported alongside the annual Statement of Accounts.

**FURTHER INFORMATION**

Further information on the contents of this publication can be obtained from the Director of Corporate Resources, Park North, North Street, Horsham, West Sussex RH12 1RL.

## **RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

### **THE AUTHORITY'S RESPONSIBILITIES**

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Resources;
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets;
- Approve the statement of accounts.

### **THE DIRECTOR OF CORPORATE RESOURCES RESPONSIBILITIES**

The Director of Corporate Resources is responsible for the preparation of the authority'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 Director of Corporate Resources has:

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

The Director of Corporate Resources has also:

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

I hereby certify that the Statement of Accounts 2012/013 present a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31<sup>st</sup> March 2013

**Director of Corporate Resources**

**Date:**

## **STATEMENT OF ACCOUNTING POLICIES**

### **1. GENERAL**

The accounts comply with the Code of Practice on Local Authority Accounting (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Accounting policies and estimation techniques have been selected and used having regard to the accounting principles and concepts set out in International Financial Reporting Standards (IAS) 1 - Framework for the Preparation of Financial Statements, specifically:

- The qualitative characteristics of financial information;
- Relevance
- Reliability
- Comparability
- Understandability
- Materiality
- Accruals
- Going concern

Where there is specific legislation this will have primacy over any other provision. The accounts have been prepared under the historical cost convention modified by the revaluation of certain categories of non-current assets.

### **2. ACCRUALS OF EXPENDITURE AND INCOME**

The revenue accounts of the Council are maintained on an accrual basis in accordance with the Code. Any sums due to or payable by the Council at the end of each financial year are brought into account (irrespective of whether cash has been received or payment has been made). Where a service is provided for a full year a full year's costs/income is reflected in the accounts, if any service is only provided for a proportion of the year a relevant proportion is included. If actual costs are not available accruals are made, in accordance with officer guidelines, on a best-estimate basis.

At the end of each financial year an estimate is made of doubtful debts - amounts due to the Council but unlikely to be received. The total value of these amounts is shown as a provision on the Balance Sheet.

Capital expenditure is also accounted for on an accrual basis in accordance with the capital accounting provisions of the Code.

Council tax income is accounted for on an accruals basis with the Horsham District Council share of income included within the debtors and creditors balances on the Balance Sheet, with the precepting authorities' account for their relevant share. National Non-Domestic Rates are collected on an agency basis and accounted for accordingly.

### **3. CASH AND CASH EQUIVALENTS**

Cash equivalents are short-term, highly liquid investments that are repayable within one month of acquisition. They are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash equivalents include shares in constant net asset value money market funds.

### **4. EXCEPTIONAL ITEMS**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

**5. PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively.

Changes in accounting policies are only made where 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 Authority's financial position or financial performance. When 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 error discovered in prior periods figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

**6. CHARGES TO REVENUE RELATED TO NON-CURRENT ASSETS**

General Fund service revenue accounts have been charged with depreciation, amortisation and where required any relevant impairment loss. These charges are credited in the Movement in Reserves Statement so that they do not have an impact on the amounts required to be raised from local taxation.

Amounts required to be set aside from revenue for the reduction of its overall borrowing requirement to finance capital expenditure, or as transfers to other earmarked reserves, are disclosed separately in the Movement in Reserves Statement.

**7. OFFICERS' EMOLUMENTS AND SENIOR OFFICER REMUNERATION**

In line with the Accounts and Audit Regulations, a note disclosing officers' emoluments which covers all amounts paid to or receivable by an employee, including sums due by way of expenses allowances and the estimated money value of any other benefits received by an employee other than in cash.

There is also a requirement that local authorities include remuneration information of senior employees in the note accompanying their statement of accounts with previous year comparatives. This information can be found in note 27 to the core financial statements.

Benefits payable during employment are those that are due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is charged to the provision of services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**8. EXIT PACKAGES AND TERMINATION COSTS**

The 2011/12 Code introduced a new disclosure requirement to provide the details of exit packages agreed and the costs within bandings for the financial year with prior year comparatives. This information can be found within note 28.

Information on termination costs and together with prior year comparatives are provided in note 35.

**9. PENSIONS**

Horsham District Council employees have the right to membership of the Local Government Pension Scheme, administered by West Sussex County Council. This scheme is accounted for as a defined benefits scheme. Pension costs have been accounted for in accordance with International Accounting Standard (IAS)19 Retirement Benefits. The basic principle being that the Council accounts for retirement benefits when it is committed to give them, even if the actual payment is in the future. The estimated true economic current costs are based on valuations provided by the Fund's actuaries.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on long-dated, high quality corporate bonds (iBoxx Sterling Corporate Index, AA over 15 years), at the IAS19 valuation date. Prior to 2004/05, CIPFA guidance required the use of a real discount rate.

The assets of the scheme are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unlisted securities – current bid price
- Property – market value

Under the Code of Local Authority Accounting the council has adopted the IAS 19, Retirement Benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value.

Any change in the net pension liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year are allocated in the Comprehensive Income and Expenditure Account to the revenue accounts of services for which the employees worked.
- past service cost – the increase or decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. These are debited/credited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Account.
- expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Account.
- gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited to the Net Cost of Services in the Comprehensive Income and Expenditure Account as part of Non Distributed Costs.
- 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, debited/credited to the Comprehensive Income and Expenditure Statement.
- contributions paid to the West Sussex County Council Pension Fund – cash paid as employer contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to 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 any amounts payable to the fund but unpaid at the year-end.

West Sussex County Council's Annual Report on the Pension Fund is available from County Hall, Chichester.

## 10. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

### 11. FINANCIAL INSTRUMENTS

The accounting for financial instruments includes disclosures concerning the values of, and the risks related to financial assets and liabilities. The financial assets are investments, debtors and the financial liabilities are creditors, long term borrowing and other balances shown under current liabilities. All the instruments are shown on balance sheet as the amortised cost which includes any accrued interest at the balance sheet date. The fair value of instruments with over a year to maturity is shown in a note to the accounts.

The authority recognises a financial asset or liability in the Balance Sheet when it becomes a party to the contractual provisions of the instrument. Instruments are measured initially at fair value less acquisition costs. In almost all cases the authority deems the transaction price to be the fair value as transactions are based on market terms. Otherwise the Authority uses an appropriate valuation technique. Instruments are subsequently carried at their amortised cost. The authority fully accrues for interest on instruments and the accruals of interest are accounted for as part of the amortised cost/fair value of the associated financial instrument, with interest split between short and long term instruments.

### 12. 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 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.

### 13. GRANTS AND CONTRIBUTIONS

Grants and subsidies have been credited to the appropriate revenue account and an accrual has been made for revenue balances known to be receivable for the period to 31<sup>st</sup> March 2013.

Grants and contributions for capital purposes are recognised as income on receipt as long as there is no condition for their use that has not been satisfied. Where there is a condition the amount will be held as a receipt in advance until the condition is satisfied at which point the amount is recognized as income. Where capital grants are recognised as income they are reversed out of the General Fund in the Movement in Reserves Statement and held as unapplied reserve until used to finance capital expenditure.

### 14. HERITAGE ASSETS

Heritage assets are assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historic associations.

A tangible heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Operational heritage assets (i.e. those that, in addition to being held for their heritage characteristics, are also used by the authority for other activities or to provide other services) shall be accounted for as operational assets rather than heritage assets, and shall be valued in the same way as other assets of that general type

Heritage assets shall normally be measured at valuation in accordance with Financial Reporting Standard 30 but the Standard states that valuations may be made by any method that is appropriate and relevant. Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets can be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses). The museum collections have not been valued as the cost of valuation is not seen as commensurate with benefits to users; historic cost information is not available for collection. The artworks are valued using historic costs where records are available while the war memorial, due to its special nature, is valued at its depreciated replacement cost.

Depreciation will be charged where the asset does not have an indefinite life. If there is evidence of impairment the carrying amount of the asset shall be reviewed. The holdings of the Council currently have indefinite lives and hence are not charged depreciation.

Where heritage assets are re-valued the treatment would be the same as for normal properties using the Revaluation Reserve where appropriate and reporting impairments if necessary.

The council does not recognise any intangible heritage assets. If it did it would account for them in accordance with International Public Sector Accounting Standard (IPSAS) 31 Intangible Assets, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA code.

### 15. INTANGIBLE ASSETS

Intangible assets give an economic benefit over more than one year. Long term software licenses are currently the only category in this year's account. They are initially recognised at cost and then amortised over their useful lives.

The gain or loss on disposal of intangible assets is recognised in the Comprehensive Income and Expenditure Account. To comply with statute the gain or loss is reversed out in the Movement in Reserves Statement (MIRS).

### 16. INVENTORIES & WORK IN PROGRESS

Stocks are valued at the lower of actual cost or net realisable value.

### 17. INVESTMENT PROPERTY

Investment properties are held to earn return rather than to provide services. The authority holds a number of commercial properties that it categorises as Investment Properties on the basis that the properties are rented to commercial entities using standard commercial terms of the rental rather than concessionary terms to specific classes of commercial tenants. Investment properties are valued at fair value which is usually the open market value. When a value is changed any gain or loss is recognised in the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement but is reversed out of the General Fund in the Movement in Reserves Statement as required by statutory regulation.

### 18. LEASES

Leases are classified as finance or operating leases based on the extent that the risks and rewards associated with a leased asset lie with the lessor or lessee. If substantially all the risks and rewards of the lease transfer to the lessee it is a finance lease, otherwise an operating lease. For purpose of classification land and buildings are considered separately.

#### The Council as a Lessee

##### Finance Leases

Where the authority leases any property, plant and equipment under finance leases they are recognised on the authority's Balance Sheet at the commencement of the lease. As lessee, the authority recognises finance leases as assets and liabilities at amounts equal to the fair value of the property or, if lower, the present value of the minimum lease payments.

Minimum lease payments are apportioned between the finance charge (interest) and the reduction of the outstanding liability (i.e. a charge for the acquisition of the interest in the property, plant and equipment).

Assets recognised under a finance lease, as a lessee, are depreciated in accordance with the authority's depreciation policy for owned assets. The authority is required to make an annual provision (i.e. Minimum Revenue Provision) from revenue to contribute towards the reduction in its overall borrowing requirement in relation to assets calculated in accordance with statutory guidance.

##### Operating Leases

Rentals paid are recognised in Comprehensive Income and Expenditure Statement (CIES) as an expense. Charges should be made on a straight line basis over life of lease if actual pattern of payments are significantly different from a straight line basis.

### The Council as a Lessor

#### Finance Leases

Where the Council leases out property under a finance lease the relevant asset is written out of the Balance Sheet as a disposal. Any gain would be treated as a capital receipt. The carrying amount of the asset would be written off in CIES as a loss or gain on disposal. Lease rentals are apportioned between a charge for asset use writing down the lease debtor and a finance charge income in the CIES.

#### Operating Leases

Rental income is recognised in CIES. Charges should be made on a straight line basis over life of lease if actual pattern of income diverges significantly from a straight line basis.

## **19. OVERHEADS AND SUPPORT SERVICES**

Central support services are fully allocated to revenue and capital accounts. The Council has adopted the general principle of allocating the costs of central administrative departments on the basis of the estimated time spent by officers on the various services. The exception to this approach is the cost of administrative buildings which is allocated on the basis of area occupied and IT charges which are apportioned on a range of methodologies dependent on the type of charge incurred. The cost of corporate management is charged to the Corporate and Democratic Core.

## **20. PROPERTY, PLANT AND EQUIPMENT**

Expenditure on the acquisition, creation or enhancement of property, plant and equipment (PPE) is capitalised on an accrual basis in the accounts. Expenditure on PPE over the de minimis limit of £20,000 is capitalised, provided that the PPE yields benefits to the authority and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of PPE assets which is charged direct to service revenue accounts.

Property, plant and equipment is valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Assets are valued on the following basis:

- initially at cost including any costs attributable to bringing the asset into use and subsequently at market value for the existing use except for assets which are rarely subject to an open market where depreciated replacement cost is used.
- Assets under construction and community assets are held at depreciated historic cost.

Where the value of an asset is to be recovered by sale it is classified as an asset held for sale it is held as its value before reclassification or the fair value less costs to sell, whichever is the lower. Any consequence loss is posted to the CIES. Gains in fair value would be recognised up to the amount of any previously recognised losses.

The Revaluation Reserve was set up with a zero balance at 1st April 2007. Any revaluation upward results in a credit to the reserve. A downward revaluation can be set against the Revaluation Reserve if there was a balance referring to the devalued asset.

Revaluation of property, plant and equipment is planned at five-yearly intervals, although material changes to asset valuations will be adjusted in the interim period, as an assessment is made at the end of each year for any indication that assets may be impaired in addition to cyclical revaluations. Any impairment would be written off against any revaluation gain for that asset in the Revaluation Reserve or otherwise recognised in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed the reversal is credited back in the CIES up to the amount of the original loss adjusted for the depreciation that would have been charged if the loss had not been recognised.

Income from the disposal of property, plant and equipment is accounted for on an accruals basis and is credited to the CIES as apart of the gains and losses on disposal. Such income that has not been used to finance capital expenditure is included in the balance sheet as usable capital receipts.

The carrying amount of an asset shall be derecognised on disposal or when no future economic benefits or service potential is expected and written off to CIES in the gains and losses on disposal.

Where a significant component part of an asset has a different useful life to other parts it will be depreciated separately. Component accounting will be phased in when assets are enhanced, acquired or re-valued from 1 April 2010. Where a component is replaced or restored the carrying amount of the old component shall be derecognised.

### 21. DEPRECIATION

Depreciation is provided for on all property, plant and equipment with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

- no assets are depreciated in the year of acquisition, but they are depreciated in the year of disposal. Assets in the course of construction are not depreciated until the year following the one in which they are first brought into use. In the exceptional case of part year depreciation being material a charge may be made.
- operational assets are depreciated on using a straight line method over the useful life of the asset, taking into account any residual value.

The expected useful life of assets is not necessarily revised at each revaluation but is reviewed annually. In line with the valuer's judgment we reduce the useful life of most of our assets by one year, the remaining assets' lives are reviewed by the valuer for reasonableness.

Investment properties are not depreciated.

### 22. PROVISIONS & RESERVES

The Council establishes provisions for specific expenses that are certain to be incurred but the amount of which cannot yet be determined accurately.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required or a lower settlement is made, the provision is reversed and credited back to the relevant service revenue account.

The Council maintains earmarked reserves to meet future spending programmes. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from the reserve is incurred, it is charged to the appropriate service revenue account in that year to go against the Cost of Services in the Comprehensive Income and Expenditure Statement (CIES). The reserve is then appropriated back to the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for property, plant and equipment and retirement benefits and do not represent usable resources for the council.

### 23. CONTINGENT LIABILITIES

IAS 37 - Provisions, Contingent Liabilities and Contingent assets requires the Council to disclose contingent liabilities. These arise from past events and their existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control that may result in an obligation on the Council.

Material contingent liabilities are not recognised as an item of expenditure within the accounts but are disclosed within the notes to the accounts unless the possibility of a transfer of economic benefits in settlement is remote.

### 24. CONTINGENT ASSETS

IAS 37 - Provisions, Contingent Liabilities and Contingent assets requires the Council to disclose contingent assets. These arise from past events and their existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control that may result in an asset to the Council.

Contingent assets are not accrued in the accounting statements, in conformity with the concept of prudence. Material contingent assets are disclosed within the notes to the accounts if the inflow of a receipt or economic benefit is probable.

### 25. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of property, plant or equipment has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of council tax.

### 26. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

### 27. REPURCHASE OF BORROWING

The Council will recognise the gains or losses on the repurchase of borrowing in the line with the Code.

### 28. SERVICE REPORTING CODE OF PRACTICE

The presentation of the final accounts reflects service reporting accounting requirements, with the aims of providing a consistent basis for all statutory financial disclosures in relation to best value.

### 29. ACCOUNTING FOR JOINT VENTURE ARRANGEMENTS

IAS 31 Interests in Joint Ventures identifies three types of structures that meet the definition of joint ventures:

- jointly controlled entities
- jointly controlled operations, and
- jointly controlled assets

It is the Council's policy when it enters into a joint arrangement to assess the terms of the agreement to determine the authority's accounting treatment.

The Council is currently contracted into a shared arrangement for its ICT and Revenues and Benefits services. The arrangement is called Census and is with Mid Sussex and Adur District Councils for the Revenues and Benefits with the addition of Worthing Borough Council within the ICT service. The arrangement fulfils the definition of a jointly controlled operation, which requires that each of the authority recognises its share of the assets and liabilities, expenditure and income within its single entity financial statements.

Prior to the 2012/13 financial statements the Council accounted for the partnership transactions as they went through the accounting ledger, although this was not correct no prior period adjustment was made as the changes were not material. The 2012/13 accounts have accounted for the arrangement as per IAS 31 and the year end closing balances reflect the Horsham District Council share of the total arrangement.

## PROVISIONS AND RESERVES

**Provisions and Reserves are methods of earmarking the authority's funds to cover future expenditure.**

### PROVISIONS

Provisions represent sums set aside for liabilities or losses on bad debts which are certain to arise but owing to their inherent nature cannot be quantified with any certainty.

**Provision for Corporate Restructure** During 2008/09 the council initiated a review of the management structure within the authority and a provision was set up for the redundancy and pension costs of this restructure. The balance remaining in the provision is to cover any future payments to the pension fund for early access costs.

**Provision for Concessionary Fares** This provision was established in 2009/10 as a result of appeals by bus operators for additional reimbursement of costs relating to the concessionary fares scheme. The final payments were paid and the provision cleared in 2012/13.

### RESERVES

**General Fund Revenue Reserve** Established during 1988/89 to provide finance to meet future expenditure arising from capital and revenue projects. In 2012/13 this reserve has been amalgamated with the General Fund Balance.

**Local Development Reserve** Established in 1998/99 to set aside funds for future expenditure on the Local Development Framework.

**Other Reserves** A number of small balances held against future expenditure on specific items, such as tree planting, etc.

**Repairs and Renewals** Used to finance the programmed replacement of heavy plant, equipment and machinery and programmed renewal works. Contributions are received from spending accounts calculated to ensure sufficient funds exist to fully finance the replacement programme.

**Insurance** Established to provide the Council with cover on otherwise uninsured risks and defaults on the repayment of car loans.

**Vehicle Replacement Reserve** Established in 2004/05 to set aside funds to replace vehicles in the future.

### **Section 106 Reserves**

Section 106 receipts below the de minimis amount held in reserves. When the schemes incur revenue expenditure, monies will be transferred to the revenue accounts.

### **Pension Reserve**

Reflects the net deficit on the Council's defined benefit Scheme as required by IAS 19 – Employee Benefits

### **New Homes Reserve**

This was established in 2012/13 with the New Homes bonus received in 2011/12 and 2012/13.

### **War Memorial Fund**

A fund which is specifically for expenditure on Horsham War Memorial. The Trustees have invested the fund with the Council.

# MOVEMENT IN RESERVES STATEMENT

## Agenda Item 7

	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Note
	£	£	£	£	£	£	£	
<b>Balance at 1 April 2011</b>	<b>(1,511,869)</b>	<b>(10,494,469)</b>	<b>0</b>	<b>(1,123,298)</b>	<b>(13,129,636)</b>	<b>(99,799,854)</b>	<b>(112,929,490)</b>	
Movement in reserves during 2011/12								
(Surplus) or deficit on provision of services	(636,421)	0	0	0	(636,421)	0	(636,421)	24
Other Comprehensive Expenditure and Income	0	0	0	0	0	9,493,392	9,493,392	
Total Comprehensive Expenditure and Income	(636,421)	0	0	0	(636,421)	9,493,392	8,856,971	
Adjustments between accounting basis & funding basis under regulations	(109,462)	0	0	591,307	481,845	(481,845)	0	6
Net Increase/Decrease before Transfers to Earmarked Reserves	(745,883)	0	0	591,307	(154,576)	9,011,547	8,856,971	
Transfers to/from Earmarked Reserves	845,631	(845,631)	0	0	0	0	0	
Increase/Decrease (movement) in Year	99,748	(845,631)	0	591,307	(154,576)	9,011,547	8,856,971	
<b>Balance at 31 March 2012 carried forward</b>	<b>(1,412,121)</b>	<b>(11,340,100)</b>	<b>0</b>	<b>(531,991)</b>	<b>(13,284,212)</b>	<b>(90,788,307)</b>	<b>(104,072,519)</b>	
(Surplus) or deficit on provision of services	1,539,230	0	0	0	1,539,230	0	1,539,230	24
Other Comprehensive Expenditure and Income	0	0	0	0	0	2,578,507	2,578,507	
Total Comprehensive Expenditure and Income	1,539,230	0	0	0	1,539,230	2,578,507	4,117,737	
Adjustments between accounting basis & funding basis under regulations	(3,108,402)	0	(922,555)	(2,557,582)	(6,588,539)	6,588,539	0	6
Net Increase/Decrease before Transfers to Earmarked Reserves	(1,569,172)	0	(922,555)	(2,557,582)	(5,049,309)	9,167,046	4,117,737	
Transfers to/from Earmarked Reserves	(7,031,392)	7,133,040	0	0	101,648	(101,648)	0	
Increase/Decrease (movement) in Year	(8,600,564)	7,133,040	(922,555)	(2,557,582)	(4,947,661)	9,065,398	4,117,737	
<b>Balance at 31 March 2013 carried forward</b>	<b>(10,012,685)</b>	<b>(4,207,060)</b>	<b>(922,555)</b>	<b>(3,089,573)</b>	<b>(18,231,873)</b>	<b>(81,722,909)</b>	<b>(99,954,782)</b>	

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2011/2012				2012/2013			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Note
£	£	£		£	£	£	
8,713,235	(7,095,269)	1,617,966	Central Services to the Public	8,080,280	(6,997,127)	1,083,153	34
7,537,355	(2,655,730)	4,881,625	Cultural & Related Services	6,312,763	(3,004,406)	3,308,357	34
9,774,751	(4,367,159)	5,407,592	Environmental & Regulatory Services	10,216,492	(3,749,780)	6,466,712	3, 34
5,618,261	(1,632,985)	3,985,276	Planning & Development Services	5,611,211	(1,585,531)	4,025,680	34
35,240,060	(31,929,970)	3,310,090	Housing Services	34,718,846	(33,052,176)	1,666,670	30,34
2,406,861	(3,227,203)	(820,342)	Highways & Roads	2,303,670	(3,449,284)	(1,145,614)	34
294,338	(339,529)	(45,191)	Social Services	278,128	(315,358)	(37,230)	
2,351,457	(24,288)	2,327,169	Corporate & Democratic Core	2,236,980	(24,162)	2,212,818	29,34
142,697	0	142,697	Non-Distributed Costs	19,171	0	19,171	
<b>72,079,015</b>	<b>(51,272,133)</b>	<b>20,806,882</b>	<b>Cost of Services</b>	<b>69,777,541</b>	<b>(52,177,824)</b>	<b>17,599,717</b>	24
2,243,500	(438,139)	1,805,361	Other operating expenditure	2,280,386	(325,935)	1,954,451	7
3,627,956	(9,107,920)	(5,479,964)	Financing and investment income and expenditure	9,302,338	(8,365,954)	936,384	8,12,34
0	(17,768,700)	(17,768,700)	Taxation and non-specific grant income	0	(18,951,322)	(18,951,322)	9,30
<b>77,950,471</b>	<b>(78,586,892)</b>	<b>(636,421)</b>	<b>(Surplus) or deficit on provision of services</b>	<b>81,360,265</b>	<b>(79,821,035)</b>	<b>1,539,230</b>	24
			Surplus or deficit on revaluation of Property, Plant and Equipment assets			(130,399)	22
		2,596,392					
		6,897,000	Actuarial (gains)/losses on pensions assets/liabilities			2,708,906	36
		<b>9,493,392</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>2,578,507</b>	
		<b>8,856,971</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>4,117,737</b>	

# BALANCE SHEET

## Agenda Item 7

<u>31.3.12</u>		<u>Note</u>	<u>31.3.13</u>
£			£
	Property, Plant and Equipment		
72,624,700	- Other Land and Buildings	10	70,875,600
4,009,726	- Vehicles, Plant, Furniture & Equipment	10	3,366,324
50	- Community Assets	10	50
1,594,748	- Assets under construction/Awaiting Development	10	0
709,400	Heritage Assets	11,40	709,400
33,119,262	Investment Property	12	29,402,322
18,893	Intangible Assets	13	39,541
28,415	Long-term Debtors	14	25,380
<b>112,105,194</b>	<b>TOTAL LONG TERM ASSETS</b>		<b>104,418,617</b>
3,026,775	Short - Term Investments	14	8,100,394
120,927	Inventories	15	92,251
3,500,151	Short Term Debtors	17,20	5,333,092
5,320,219	Cash and Cash Equivalents	14,18	6,212,866
<b>11,968,072</b>	<b>CURRENT ASSETS</b>		<b>19,738,603</b>
(4,025,918)	Short Term Creditors	19	(5,024,770)
<b>(4,025,918)</b>	<b>CURRENT LIABILITIES</b>		<b>(5,024,770)</b>
(457,791)	Provision for Corporate Restructure	20	(148,054)
(52,336)	Provision for Concessionary Fares	20	0
(148,105)	Provision for Accumulated Absences	20	(176,923)
(4,000,000)	Long Term Borrowing	14	(4,000,000)
	Other Long Term Liabilities		
(8,791,680)	- Pension Asset/(Liability)	36	(10,940,376)
(23,741)	- Finance Lease Deferred Liability	14	(15,238)
(2,141)	- War Memorial Fund		(2,141)
(1,993,546)	- Other Balances		(3,239,447)
(505,489)	Capital Grants & Receipts Receipts in Advance		(655,489)
<b>(15,974,829)</b>	<b>LONG TERM LIABILITIES</b>		<b>(19,177,668)</b>
<b>104,072,519</b>	<b>NET ASSETS</b>		<b>99,954,782</b>
	Usable Reserves		
(12,752,221)	- Reserves	5,22	(14,219,745)
0	- Capital Receipts Reserve	21	(922,555)
(531,991)	- Capital Grants & Receipts Unapplied	21	(3,089,573)
	Unusable Reserves		
(12,985,308)	-Revaluation Reserve	22	(12,872,997)
8,791,000	-Pensions Reserve	22,36	10,939,698
(86,627,955)	-Capital Adjustment Account	22	(79,807,699)
(169,495)	-Financial Instrument Adjustment Account	22	(145,498)
55,346	-Collection Fund Adjustment Account	22	(13,336)
148,105	-Accumulating Absences Adjustment Account	22	176,923
<b>(104,072,519)</b>	<b>TOTAL RESERVES</b>		<b>(99,954,782)</b>

Director of Corporate Resources

Date

## CASHFLOW STATEMENT

<u>2011/12</u>		<u>2012/13</u>	Note
£		£	
	<b><u>Operating activities</u></b>		
(636,421)	(Surplus) or deficit on provision of services	1,539,230	
3,668,412	Adjust net surplus or deficit on the provision of services for non- cash movements	(2,863,627)	
(2,803,210)	Adjust for items in the net deficit on the provision of services that are investing or financing activities	(2,172,574)	
<b>228,781</b>	<b>Net cash flows from Operating activities</b>	<b>(3,496,971)</b>	23
	<b><u>Investing activities</u></b>		
5,415,970	Purchase of property, plant and equipment, investment property and intangible assets	1,009,177	
17,000,000	Purchase of short-term and long-term investments	22,000,000	
	Other payments for investing activities		
(249,963)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,840,099)	
(21,000,000)	Proceeds from short-term and long-term investments	(17,000,000)	
<b>1,166,007</b>	<b>Net cash flows from investing activities</b>	<b>4,169,078</b>	
	<b><u>Financing Activities</u></b>		
(7,497,555)	Other receipts from financing activities	(7,090,360)	
6,048,323	Other payments for financing activities	5,525,606	
<b>(1,449,232)</b>	<b>Net cash flows from financing activities</b>	<b>(1,564,754)</b>	
<b>(54,444)</b>	<b>Net increase in cash and cash equivalents</b>	<b>(892,647)</b>	
<b>(5,265,775)</b>	<b>Cash and cash equivalents at 1 April</b>	<b>(5,320,219)</b>	18
<b>(5,320,219)</b>	<b>Cash and cash equivalents at 31 March</b>	<b>(6,212,866)</b>	18

**NOTES TO THE CORE STATEMENTS**

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### 1 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Council Accounting in the United Kingdom 2013/14 has introduced several changes in accounting policies which will be required from 1 April 2013.

**IAS 1 Presentation of Financial Statements** - The changes require authorities to separately disclose the gains or losses re-classifiable to the Surplus or Deficit on the Provision of Services. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure required.

**IAS 12 Income Taxes** - This change affects investment properties in particular, however it is not expected to be relevant to the Councils single entity financial statements.

**IAS 19 Employee Benefits**; New definitions are being introduced for the components of defined benefits cost, past service costs and re-measurements and this will result in a change to the distribution of pension expenses within the Comprehensive Income and Expenditure Statement.

The change will see the advance credit for anticipated out performance of return seeking assets, such as equities, no longer being permitted. This expected return on assets currently gets charged to the Comprehensive Income and Expenditure account, this will be replaced with an equivalent figure calculated using the discount rate (as opposed that calculated using the Return on Assets assumption). The changes to IAS 19 will be retrospectively applied for the 2012/13 financial year at the time the 2013/14 accounts are prepared in accordance with IAS 8. The effect of the change will be an increase of £935k, of this £37k will reflect the Horsham share of the increase in cost relating to the Census partnership. However, all IAS 19 entries are mitigated through the Movements in Reserves Statement and therefore no impact on the General Fund Balance.

**IFRS 7 Financial Instrument**: Disclosures (transfer of assets) are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the authority's financial position. However, CIPFA/LASAAC is of the view that the transfers described by the standard do not occur frequently in local authorities.

### 2 CRITICAL JUDGEMENTS AND ASSUMPTIONS

#### **Critical Judgements**

In applying the policies as set out in the Statement of Accounting Policies, the Authority has made the following critical judgements that have a significant effect on the statements:

- Future levels of local authority funding are uncertain, however based on its medium term planning using prudent assumptions on funding and based on announcements made by central government the Authority judges that its assets will not be impaired as a result of a need to close facilities, reduce service provision or ongoing maintenance.
- The Authority holds a significant portfolio of investment property and although general economy growth is quite fragile the Authority judges that its portfolio in the context of the local economy is robust and healthy enough that its assets will not be impaired as a result of a decrease in economic activity.
- The Authority judges that, on balance, the banking system will not be subject to major disruption to the extent that historic estimates of defaults are no longer tenable
- The Authority does not expect the introduction of the new tax gathering mechanisms for Council Tax and Business Rates to fundamentally alter the councils financial stability. The risk within the new rates retention scheme is assumed to be to the safety net which has been set by the government at 7.5% of the authority Spending Baseline which equates to £135,000.

#### **Assumptions**

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

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

#### **Pensions Liability**

Estimation of the 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 Authority with expert advice about the assumptions to be applied. However the interaction of these assumptions is complex.

During 2012/13 the actuaries advised that the pension liability had been affected as follows:

	Horsham		CenSus	
	Approximate % increase to Employer	Approximate monetary amount £000	Approximate % increase to Employer	Approximate monetary amount £000
<u>Change in assumptions year ended 31 March 2013</u>				
0.5% decrease in Real Discount Rate	9%	10,373	13-14%	575
1 year increase in member life expectancy	3%	3,404	3%	128
0.5% increase in Salary Increase Rate	2%	2,470	6-7%	263
0.5% increase in the Pension Increase Rate	7%	7,800	7%	294

## Provisions

The provision for doubtful debt is based on estimates of default. The estimated default rates used which range from 3% to 100% may be sensitive to economic circumstances. An increase of 10% in default rates would have the effect of increasing the required provision by £0.35m

## Property, plant and equipment

The depreciation of buildings is based on estimated useful life and residual value which is based on the present use and level of maintenance which in turn depends on the continued level of funding throughout 2012/13. For every year that the life of buildings were to decrease the extra depreciation would be £45,000.

## Heritage assets

The Balance Sheet has recognised heritage assets where a relevant cost can be identified. The artefacts held within the Horsham Museum have not been recognised on the Balance Sheet because we do not hold a relevant value for them and the cost of obtaining a value is not considered commensurate with the benefit of the information. It is agreed that the articles are of local historical value but it is assumed that there would not be significant demand in the wider market for the majority of the items. Some detail has been provided on the diverse range of artefacts held by Horsham Museum in note 40 to the accounts.

## 3 MATERIAL ITEMS OF INCOME AND EXPENSE

These are material items in terms of the authority's overall net expenditure, which are derived from events or transactions that are not expected regularly, that fall within the ordinary activities of the authority. They are required to be disclosed separately by virtue of their size or incidence to give a fair presentation of the accounts.

### **VAT reclaim**

During 2012/13 the Council received a repayment of VAT from HMRC for services that should have been treated as non-business.

### Trade Waste Collection Services

Since 1st February 2011, following a policy review by HM Revenues and Customs, the provision of trade waste collection has been treated as a non-business service. This is on the basis that it falls within the first paragraph of article 13.1 of the Principal VAT Directive which states that it is a service that is engaged in as a public authority and is undertaken pursuant to section 45(1) of the Environmental Protection Act 1990. The basis of the claim to HMRC was that the service should have been treated as non business during the period April 1974 to January 2011 when it was treated as vatable.

The net reclaim is within Environmental and Regulatory Services in the Comprehensive Income and Expenditure Accounts.

	Reclaim Income £	Interest Income £	Advisor costs £	Net Income £
Trade Waste Collection	(88,000)	(62,077)	30,059	(120,018)

#### 4 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Director of Corporate Resources on 26th June 2013. 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 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

##### Non adjusting event after the reporting period 1 April 2012 to 31 March 2013

On 1st April 2013 the new arrangements for the retention of Business Rates came into effect. From this date local authorities assumed the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were previously paid over to Central Government in respect of 2012/13 and prior years. As at 1 April 2013 the Horsham District share of this liability is estimated to be £0.4m. This assumes a successful appeal rate of 30% from the 2010 revaluation list and 81% from the 2005 list and an average reduction in the rateable value of 11.6%.

#### 5 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/13.

	Balance at 31.03.11 £000	Income/ Expenditure 2011/12 £000	Transfer In from other reserves 2011/12 £000	Balance at 31.03.12 £000	Income/ Expenditure 2012/13 £000	Transfer In from other reserves 2012/13 £000	Balance at 31.03.13 £000
<b>General Fund:</b>							
General Fund Balance	(1,512)	186	(86)	(1,412)	(1,083)	(7,518)	(10,013)
General Fund Reserve	(8,277)	736	(1,125)	(8,666)	0	8,666	0
New Homes Reserve	0	0	0	0	0	(1,148)	(1,148)
Local Development Reserve	(78)	0	0	(78)	10	0	(68)
Repairs and Renewals Reserve	(717)	80	0	(637)	21	0	(616)
s106 Reserves	(452)	(141)	0	(593)	(256)	0	(849)
Insurance Reserve	(36)	0	0	(36)	0	0	(36)
Vehicle Replacement Reserve	(516)	0	0	(516)	102	0	(414)
Other	(418)	99	(495)	(814)	(262)	0	(1,076)
<b>Other Earmarked Reserves</b>	<b>(10,494)</b>	<b>774</b>	<b>(1,620)</b>	<b>(11,340)</b>	<b>(385)</b>	<b>7,518</b>	<b>(4,207)</b>

In 2012/13 the General Fund Reserve has been amalgamated with the General Fund Balance.

The 2011/12 figures have been amended to those reported in the 2011/12 statement of accounts as a s106 reserve was included within 'other' reserves. All s106 reserves are now reported under the s106 heading. The change has the following effect on the 2011/12 figures:

	Balance at 31.03.11 £000	Income/ Expenditure 2011/12 £000	Transfer In from other reserves 2011/12 £000	Balance at 31.03.12 £000
s106 Reserves	-15	-13	0	-28
Other	15	13	0	28

#### 6 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 authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2012/2013

## Usable Reserves

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Charges for depreciation of non-current assets	(2,195)				2,195
Impairment on Property, Plant and Equipment	(827)				827
Other gains transferred from Revaluation Reserve	(6)				6
Movements in the market value of Investment Properties	(4,071)				4,071
Amortisation of intangible assets	(15)				15
Capital grants and contributions applied	539				(539)
Revenue expenditure funded from capital under statute	(760)				760
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	(1,801)				1,801
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory provision for the financing of capital investment	751				(751)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>					
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	2,568			(2,568)	0
Application of grants to capital financing transferred to the Capital Adjustment Account				10	(10)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,176		(2,176)		0
Use of the Capital Receipts Reserve to finance new capital expenditure			1,210		(1,210)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(43)		43		0
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(24)				24
<b>Adjustments primarily involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(1,588)				1,588
Employers pension contributions and direct payments to pensioners payable in the year	2,148				(2,148)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	69				(69)
<b>Adjustments primarily involving the Accumulated Absences Account:</b>					
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	(29)				29
<b>Total Adjustments</b>	<b>(3,108)</b>	<b>0</b>	<b>(923)</b>	<b>(2,558)</b>	<b>6,589</b>

2011/2012

Usable Reserves

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Charges for depreciation of non-current assets	(2,322)				2,322
Impairment on Property, Plant and Equipment	(1,431)				1,431
Movements in the market value of Investment Properties	48				(48)
Amortisation of intangible assets	1,896				(1,896)
Capital grants and contributions applied	(6)				6
Movement in the Donated Assets Account	1,999				(1,999)
Revenue expenditure funded from capital under statute					0
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	(2,730)				2,730
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory provision for the financing of capital investment	665				(665)
Capital expenditure charged against the General Fund Balance	342				(342)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>					
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	28			(28)	0
Application of grants to capital financing transferred to the Capital Adjustment Account				619	(619)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	438		(438)		0
Use of the Capital Receipts Reserve to finance new capital expenditure			438		(438)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(24)				24
<b>Adjustments primarily involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(1,155)				1,155
Employers pension contributions and direct payments to pensioners payable in the year	2,134				(2,134)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1)				1
<b>Adjustments primarily involving the Accumulated Absences Account:</b>					
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	10				(10)
<b>Total Adjustments</b>	<b>(109)</b>	<b>0</b>	<b>0</b>	<b>591</b>	<b>(482)</b>

## 7 OTHER OPERATING EXPENDITURE

	2012/13 £000	2011/12 £000
Parish council precepts	2,280	2,243
Levies	0	0
Payments to the Government Housing Capital Receipts Pool	0	0
Gains/losses on the disposal of non-current assets	(326)	(438)
<b>Total</b>	<b>1,954</b>	<b>1,805</b>

During the year gains on disposals were recognised in the Comprehensive Income and Expenditure statement, however as these were not assigned any carrying value in the asset register no disposal is shown in the movements of property, plant and equipment.

## 8 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2012/13 £000	2011/12 £000
Interest payable and similar charges	137	138
Pensions interest cost and expected return on pensions assets	(547)	(1,112)
Interest receivable and similar income	(381)	(335)
Income and expenditure in relation to investment properties and changes in their fair value	1,727	(4,171)
Other investment income		
<b>Total</b>	<b>936</b>	<b>(5,480)</b>

## 9 TAXATION AND NON SPECIFIC GRANT INCOMES

	2012/13 £000	2011/12 £000
Council tax income	(10,437)	(10,369)
Non domestic rates	(4,061)	(3,531)
Non-ringfenced government grants	(1,347)	(1,842)
Capital grants and contributions	(3,106)	(2,027)
<b>Total</b>	<b>(18,951)</b>	<b>(17,769)</b>

## 10 PROPERTY, PLANT AND EQUIPMENT

## Agenda Item 7

### Movements in 2012/13

Cost or Valuation	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
<b>At 1 April 2012</b>	74,283	6,789	0	1,595	82,667
additions	403	153			556
reclassifications				(1,595)	(1,595)
revaluation increase/(decreases) recognised in the Revaluation Reserve	130				93
revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(827)				(790)
de-recognition - disposals	(57)				(57)
other movements in cost or valuation	(493)				(493)
<b>At 31 March 2013</b>	73,439	6,942	0	0	80,381
<b>Accumulated Depreciation and Impairment</b>					
<b>At 1 April 2012</b>	(1,658)	(2,779)	0	0	(4,437)
depreciation charge	(1,398)	(797)			(2,195)
depreciation written out to the Revaluation Reserve	77				77
depreciation written out to the Surplus/Deficit on the Provision of Services	410				410
de-recognition - disposals	6				6
<b>At 31 March 2013</b>	(2,563)	(3,576)	0	0	(6,139)
<b>Net Book Value</b>					
<b>at 31 March 2013</b>	<b>70,876</b>	<b>3,366</b>	<b>0</b>	<b>0</b>	<b>74,242</b>
<b>at 31 March 2012</b>	<b>72,625</b>	<b>4,010</b>	<b>0</b>	<b>1,595</b>	<b>78,230</b>

### Movements in 2011/12

Cost or Valuation	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
<b>At 1 April 2011</b>	79,851	6,423	0	320	86,594
additions	1,962	366		1,275	3,603
reclassifications	(497)	0	0	0	(497)
revaluation increase/(decreases) recognised in the Revaluation Reserve	(4,633)	0	0	0	(4,633)
revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,749)	0	0	0	(2,749)
other movements in cost or valuation	349	0	0	0	349
<b>At 31 March 2012</b>	74,283	6,789	0	1,595	82,667
<b>Accumulated Depreciation and Impairment</b>					
<b>At 1 April 2011</b>	(3,120)	(2,050)	0	0	(5,170)
depreciation charge	(1,593)	(729)	0	0	(2,322)
depreciation written out to the Revaluation Reserve	1,732	0	0	0	1,732
recognised in the Surplus/Deficit on the Provision of Services	1,318	0	0	0	1,318
other movements in depreciation and impairment	5	0	0	0	5
<b>At 31 March 2012</b>	(1,658)	(2,779)	0	0	(4,437)
<b>Net Book Value</b>					
<b>at 31 March 2012</b>	<b>72,625</b>	<b>4,010</b>	<b>0</b>	<b>1,595</b>	<b>78,230</b>
<b>at 31 March 2011</b>	<b>76,731</b>	<b>4,373</b>	<b>0</b>	<b>320</b>	<b>81,424</b>

## Depreciation

Operational assets are depreciated over the rest of their useful lives on a straight line basis.

Assets are not generally depreciated in the year of acquisition, but they are depreciated in the year of disposal.

Assets in the course of construction are not usually depreciated until the year following the one in which they are first brought into use. The lives of operational properties are individually assessed by the valuing officer and range from 10 to 90 years.

Vehicles have a seven year life; the software licences, which comprises the intangible asset has a life of four years.

## Capital Commitments

At 31 March 2013, the Authority was committed to the following significant capital works contracts:-

	£000
HDC - Telephones Replacement	192
HDC - LAN	158
CENSUS - PC Desktop Mgt Solution	153
CENSUS - SAN Disk	56

The comparative figure for 31 March 2012 was £338,000

## Effects of Changes in Estimates

### Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are carried out internally. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Assets £000	Total £000
Carried at historical cost		3,366		3,366
Valued at fair value as at				
31 March 2013	7,562			7,562
31 March 2012	42,104			42,104
31 March 2011	18,972			18,972
31 March 2010	693			693
31 March 2009	1,545			1,545
	70,876	3,366	0	74,242

## 11 HERITAGE ASSETS

Cost or Valuation	Art works £000	War memorial £000	Total £000
1st April 2011	459	250	709
Additions / (disposals)	0	0	0
31st March 2012	459	250	709
<b>Cost or Valuation</b>			
1st April 2012	459	250	709
Additions / (disposals)	0	0	0
31st March 2013	459	250	709

### Art works

The art works are a number of sculptures and installations either constructed by the council or provided as a part of a large development. There are no current valuations for the works and it is deemed that the usefulness of a valuation to the account reader is not commensurate with the costs. The historic costs of some these works from the 2000's onwards are available so these are used as values in the balance sheet.

### War memorial

The original war memorial dates from the 1920's although it has been altered at various times since. The historic costs are not available so it is valued exceptionally at its depreciated replacement cost. This reflects its exceptional nature as it is not kept as a work of art but as a symbolic place for a public cultural function and which the Council would be expected to provide in a comparable way.

## 12 INVESTMENT PROPERTIES

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

	2012/13 £000	2011/12 £000
Income from investment property	(2,553)	(2,494)
Direct operating expenses arising from investment property	4,280	(1,677)
<b>Net gain/ (loss)</b>	<b>1,727</b>	<b>(4,171)</b>

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

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

	2012/13 £000	2011/12 £000
<b>Balance at start of year</b>	33,119	28,972
Additions:		
- Purchases	509	1,754
- Construction	0	0
Subsequent expenditure		
Disposals	(1,750)	0
Net gains/(losses) from fair value adjustments	(4,071)	1,896
Transfers:		
- to/from Property, Plant and Equipment	0	497
- to/from Assets under Construction	1,595	0
<b>Balance at end of the year</b>	<b>29,402</b>	<b>33,119</b>

## 13 INTANGIBLE ASSETS

The Authority accounts for software that has a useful life of more than 1 year and is above the de minimis level as intangible assets, to the extent that the software is not an integral part of a particular system and accounted for as part Property, Plant and Equipment. The intangible assets include purchased licences.

Intangible assets include £36,000 which represents the council's share of Census partnership software licences. The carrying amount of intangible assets is amortised on a straight line basis. The amortisation charged to the Net Cost of Services for 2012/13 is £15,000.

The movement on Intangible Assets balances during the year is as follows:

	<b>Purchased Software 2012/13 £000</b>	<b>Purchased Software 2011/12 £000</b>
Balance at start of year:		
- Gross carrying amounts	131	131
- Accumulated amortisation	(112)	(106)
<b>Net carrying amount at start of year</b>	<b>19</b>	<b>25</b>
Additions	36	0
Assets reclassified as held for sale	0	0
Amortisation for the period	(15)	(6)
Other changes		
<b>Net carrying amount at end of year</b>	<b>40</b>	<b>19</b>
Comprising:		
Gross carrying amounts	167	131
Accumulated amortisation	(127)	(112)
	<b>40</b>	<b>19</b>

## 14 FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

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

The figures here for current creditors and debtors will not necessarily match the Balance Sheet as some transactions e.g. Council Tax are excluded from financial instruments.

	<b>Long Term</b>		<b>Current</b>	
	<b>31.03.13 £000</b>	<b>31.03.12 £000</b>	<b>31.03.13 £000</b>	<b>31.03.12 £000</b>
<b>Investments, Cash and Cash equivalents</b>				
Loans and receivables	0	0	8,100	3,027
Available -for-sale financial assets	0	0	1,700	3,511
Cash and Cash equivalents	0	0	4,513	1,809
Financial assets at fair value through profit and loss				
<b>Total</b>	<b>0</b>	<b>0</b>	<b>14,313</b>	<b>8,347</b>
<b>Debtors</b>				
Loans and receivables	25	28	0	0
Financial assets carried at contract amounts	0	0	339	402
<b>Total</b>	<b>25</b>	<b>28</b>	<b>339</b>	<b>402</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	(4,000)	(4,000)	0	0
<b>Total</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>0</b>	<b>0</b>
<b>Other Long Term Liabilities</b>				
Finance lease liabilities	(15)	(24)	0	0
<b>Total</b>	<b>(15)</b>	<b>(24)</b>	<b>0</b>	<b>0</b>
<b>Creditors</b>				
Financial liabilities at amortised cost				
Financial liabilities carried at contract amounts	0	0	(6,939)	(5,367)
<b>Total</b>	<b>0</b>	<b>0</b>	<b>(6,939)</b>	<b>(5,367)</b>

Income, Expense, Gains and Losses

	2012/13			2011/12		
	Financial Liabilities measured at depreciated cost	Financial Assets: Loans & receivables	Total	Financial Liabilities measured at depreciated cost	Financial Assets: Loans & receivables	Total
	£000	£000	£000	£000	£000	£000
Interest Expense	137	0	137	138	0	138
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>137</b>	<b>0</b>	<b>137</b>	<b>138</b>	<b>0</b>	<b>138</b>
Interest income	0	(381)	(381)	0	(335)	(335)
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(381)</b>	<b>(381)</b>	<b>0</b>	<b>(335)</b>	<b>(335)</b>
<b>Net gain/(loss) for the year</b>	<b>137</b>	<b>(381)</b>	<b>(244)</b>	<b>138</b>	<b>(335)</b>	<b>(197)</b>

Financial liabilities, financial assets represented by loans and receivables 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 current applicable rates. For PWLB loan the premature redemption rate is the basis of fair value.

No early repayment or impairment is recognised.

If an instrument matures within the next 12 months , the carrying amount is assumed to approximate to fair value. The fair value of trade and other receivables is taken to be the invoiced amount.

The fair values calculated are as follows where the fair value is materially different from carrying value:

	31.03.13		31.03.12	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Financial liabilities	(4,000)	(4,616)	(4,000)	(4,546)
Loans and receivables	0	0	1,000	1,109

Loans and receivables relates to a long term loan redeemed in November 2012 whose interest rate was considerably more than those available at the end of 2011/12 leading to a fair value in excess of the carrying value. For loans and receivables at the end of 2012/13 their fair value approximates to their carrying value. The financial liability is a long term borrowing whose rate is less favourable than the applicable prevailing rate. Short term debtors and creditors are carried at cost as this is a fair approximation of their value. The fair values of long term debtors are not materially different from carrying amount.

Reclassifications

There were no re-classifications in 2012/13

## 15 INVENTORIES

	Balance outstanding at start of year	Purchases	Recognised as expense in the year	Written off balances	Reversals of write-offs in previous years	Balance outstanding at year-end
<b>31 March 2012</b>						
Consumables	21	12	(12)	0	0	21
IT Consumables	18	0	(18)	0	0	0
Fuel	22	654	(634)	0	0	42
Trade Bins	22	73	(48)	0	0	47
Car Park Tickets	15	32	(36)	0	0	11
<b>Total</b>	<b>98</b>					<b>121</b>
<b>31 March 2013</b>						
Consumables	21	6	(8)	0	0	19
Fuel	42	692	(714)	0	0	20
Trade Bins	47	3	(8)	0	0	42
Car Park Tickets	11	12	(12)	0	0	11
<b>Total</b>	<b>121</b>					<b>92</b>

## 16 ASSETS HELD FOR SALE

There were no assets held for sale in 2012/13.

## 17 DEBTORS

	31.03.13 £000	31.03.12 £000
Sundry Debtors	1,893	1,650
Central government bodies	687	136
Payments in advance	248	420
Council Tax debtors	301	305
WSCC Council Tax debtor	0	203
SPA Council Tax Debtor	0	24
NNDR due from pool	1,710	245
Housing benefit overpayments	2,048	1,747
Moat Management service charge	355	307
Other local authorities	294	266
	<u>7,536</u>	<u>5,303</u>
Provision for doubtful debts	(2,203)	(1,803)
	<u>5,333</u>	<u>3,500</u>

The sundry debtors and payments in advance figures include adjusting balances of £142k and -£78k respectively, this is required to ensure the balance sheet reflects the council's share of the Census partnership debtor balances outstanding as at 31 March 2013.

## 18 CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	31.03.13 £000	31.03.12 £000
Cash held by authority	3	0
Bank current accounts	(668)	(565)
Short-term deposits	6,878	5,885
<b>Total Cash and Cash Equivalents</b>	<b>6,213</b>	<b>5,320</b>

## 19 CREDITORS

	31.03.13	31.03.12
	£000	£000
Sundry Creditors	(4,460)	(3,876)
Prepayment of Council Tax	(179)	(150)
WSCC Council Tax creditors	(345)	0
SPA Council Tax creditors	(41)	0
<b>Total</b>	<b>(5,025)</b>	<b>(4,026)</b>

## 20 PROVISIONS

	Provision for doubtful debts	Provision for corporate restructure	Provision for concessionary Fare	Provision for Accumulated Absences	Total
	£000	£000	£000	£000	£000
<b>Balance at 1 April 2011</b>	<b>(1,441)</b>	<b>(447)</b>	<b>(40)</b>	<b>(158)</b>	<b>(2,086)</b>
Additional provisions made in 2011/12	(826)	(118)	(12)	0	(956)
Amounts used in 2011/12	464	107	0	0	571
Unused amounts reversed in 2011/12	0	0	0	10	10
<b>Balance at 1 April 2012</b>	<b>(1,803)</b>	<b>(458)</b>	<b>(52)</b>	<b>(148)</b>	<b>(2,461)</b>
Additional provisions made in 2012/13	(2,026)	0	0	(29)	(2,055)
Amounts used in 2012/13	1,627	310	52	0	1,989
<b>Balance at 31 March 2013</b>	<b>(2,202)</b>	<b>(148)</b>	<b>0</b>	<b>(177)</b>	<b>(2,527)</b>

### Provision for Doubtful Debts

Estimated debts that will not be collectible

### Corporate Restructure

During 2008/09 the council initiated a review of the management structure within the authority and a provision was set up for the redundancy and pension costs of this restructure. The balance remaining in the provision is to cover any future payments to the pension fund for early access costs. In 2011/12 the provision was increased to meet the costs of a restructure of the personal assistants' posts.

### Concessionary Fares

This provision was established in 2009/10 as a result of appeals by bus operators for additional reimbursement of costs relating to the concessionary fares scheme. Final payments were made on appeals and associated costs in 2012/13 and the provision was fully used.

### Provision for Accumulated Absences

Established in 2009/10 to cover employees' untaken leave at the end of each year.

## 21 USABLE RESERVES

Movements in reserves are detailed in the Movement in Reserves Statement in Notes 5 and 6.

	31.03.13	31.03.12
	£000	£000
Revenue Reserves:		
General Fund Revenue Reserve	0	(8,666)
Local Development Reserve	(68)	(78)
Repairs and Renewals Reserve	(616)	(637)
Section 106 Reserves	(805)	(565)
Insurance Reserve	(36)	(36)
Vehicle Replacement Reserve	(414)	(516)
New Homes Reserve	(1,148)	0
Other Reserves	(1,120)	(842)
General Fund Balance	(10,013)	(1,412)
	(14,220)	(12,752)
Capital Grants Unapplied	(4,012)	(532)
<b>Total Usable Reserves</b>	<b>(18,232)</b>	<b>(13,284)</b>

In 2012/13 the General Fund Revenue Reserve has been moved to be included within the General Fund Balance. The New Homes Bonus grant monies received in 2011/12 and 2012/13 have been moved to a separate reserve from the General Fund Revenue Reserve.

## 22 UNUSABLE RESERVES

	31.03.13	31.03.12
	£000	£000
Revaluation Reserve	(12,873)	(12,985)
Capital Adjustment Account	(79,808)	(86,628)
Financial Instruments Adjustment Account	(145)	(169)
Pensions Reserve	10,940	8,791
Collection Fund Adjustment Account	(14)	55
Accumulated Absences Account	177	148
<b>Total Unusable Reserves</b>	<b>(81,723)</b>	<b>(90,788)</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority 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,
- disposed of and 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 Capital Adjustment Account.

	31.3.13	31.3.12
	£000	£000
Balance at 1 April	(12,985)	(15,889)
(Upward)/downward revaluation of assets	(243)	2,462
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	112	488
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		
Difference between fair value depreciation and historical cost depreciation	237	308
Accumulated gains on assets sold or scrapped	6	0
Newly recognised assets		(354)
Amount written off to the Capital Adjustment Account		
Balance at 31 March	(12,873)	(12,985)

### 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, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses in Investment Properties and revaluation gains and losses accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created. Note 6 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2012/13 £000	2011/12 £000
<b>Balance at 1 April</b>	<b>(86,628)</b>	<b>(86,802)</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non-current assets	7,093	1,809
- Depreciation of intangible assets	15	6
- Revenue expenditure funded from capital under statute	760	2,730
- 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	1,801	0
Adjusting amounts written out of the Revaluation Reserve	(237)	(308)
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	(1,210)	(438)
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(539)	(1,999)
- Application of grants to capital financing from the Capital Grants Unapplied Account	(10)	(619)
- Statutory provision for the financing of capital investment charged against the General Fund	(751)	(665)
- Use of general revenue reserves for the financing of capital investment	(102)	(342)
<b>Balance at 31 March</b>	<b>(79,808)</b>	<b>(86,628)</b>

#### Financial Instruments Adjustment Account

The Financial Instrument Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

	2012/13 £000	2011/12 £000
<b>Balance at 1 April</b>	<b>(169)</b>	<b>(193)</b>
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	24	24
<b>Balance at 31 March</b>	<b>(145)</b>	<b>(169)</b>

Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements

24	24
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#### Pension 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 Authority 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 costs.

However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority 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.

	2012/13	2011/12
	£000	£000
<b>Balance at 1 April</b>	8,791	2,873
In year adjustment to reserve balance to reflect the council's share of the total Census partnership to 1 April 2012	(627)	0
Actuarial gains or losses on pensions assets and liabilities	3,336	6,897
Reversal of items relating to retirement benefits debited or credited to the surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	1,588	1,155
Employers pensions contributions and direct payments to pensioners payable in the year	(2,148)	(2,134)
<b>Balance at 31 March</b>	<b>10,940</b>	<b>8,791</b>

#### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2012/13	2011/12
	£000	£000
<b>Balance at 1 April</b>	<b>55</b>	<b>54</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-69	1
<b>Balance at 31 March</b>	<b>-14</b>	<b>55</b>

#### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year.

Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2012/13	2011/12
	£000	£000
<b>Balance at 1 April</b>	<b>148</b>	<b>158</b>
Settlement or cancellation of accrual made in the end of the preceding year	(148)	(158)
Amounts accrued at the end of the current year	177	148
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	29	(10)
<b>Balance at 31 March</b>	<b>177</b>	<b>148</b>

## 23 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2012/13	2011/12
	£000	£000
Interest received	(307)	(335)
Interest paid	137	138

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The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	2012/13 £000	2011/12 £000
Depreciation	(2,195)	(2,322)
Impairment and downward revaluations	(4,898)	513
Amortisation	(15)	(6)
(Increase)/decrease in provisions	15	(151)
Increase/(decrease) in creditors	(935)	905
Increase/(decrease) in debtors	946	1,074
Increase/(decrease) in inventories	(29)	23
Movement in pension liability	560	979
Gain on disposal of fixed asset	326	438
Grants transferred to Capital Adjustment Account	3,106	2,027
Other non-cash items charged to the net surplus or deficit on the provision of services	255	188
	<u>(2,864)</u>	<u>3,668</u>
Financing Activities relating to the collection Fund	<u>(2,173)</u>	<u>(2,803)</u>

## 24 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure statement is that specified by the Best Value Accounting Code of Practice. However decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements.

In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation, depreciations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employers pension contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to directorates

The income and expenditure of the Authority's principal directorates in the budget reports for the year is as follows:

Segment Income and Expenditure	Corporate Management	Democratic Core, Representation & Elections	Strategic Planning & Performance	Revenue & Benefits	Financial & Legal Services	Corporate Support Services Inc Estates	Housing & Community Development	Leisure & Economic Development	Planning & Environmental Services	Refuse & Cleansing	Parking	Total
2012/13	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(1)	(23)	(18)	(1,794)	(683)	(4,707)	(1,911)	(2,294)	(2,398)	(2,653)	(3,388)	(19,870)
Government grants	0	0	0	(37,314)	(2)	0	(107)	0	0	(142)	0	(37,565)
<b>Total Income</b>	<b>(1)</b>	<b>(23)</b>	<b>(18)</b>	<b>(39,108)</b>	<b>(685)</b>	<b>(4,707)</b>	<b>(2,018)</b>	<b>(2,294)</b>	<b>(2,398)</b>	<b>(2,795)</b>	<b>(3,388)</b>	<b>(57,435)</b>
Employee expenses	1,395	1,070	776	1,010	720	3,241	1,292	1,406	2,908	3,431	503	17,752
Other service expenses	34	(266)	111	38,177	1,413	2,777	1,409	2,616	771	2,884	935	50,861
<b>Total Expenditure</b>	<b>1,429</b>	<b>804</b>	<b>887</b>	<b>39,187</b>	<b>2,133</b>	<b>6,018</b>	<b>2,701</b>	<b>4,022</b>	<b>3,679</b>	<b>6,315</b>	<b>1,438</b>	<b>68,613</b>
<b>Net Expenditure</b>	<b>1,428</b>	<b>781</b>	<b>869</b>	<b>79</b>	<b>1,448</b>	<b>1,311</b>	<b>683</b>	<b>1,728</b>	<b>1,281</b>	<b>3,520</b>	<b>(1,950)</b>	<b>11,178</b>
Support service recharges	(1,204)	1,587	16	563	(1,672)	(3,871)	992	1,087	1,335	603	429	(135)
<b>Net Expenditure after recharges</b>	<b>224</b>	<b>2,368</b>	<b>885</b>	<b>642</b>	<b>(224)</b>	<b>(2,560)</b>	<b>1,675</b>	<b>2,815</b>	<b>2,616</b>	<b>4,123</b>	<b>(1,521)</b>	<b>11,043</b>
Segment Income and Expenditure												
2011/12	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(6)	(52)	(32)	(2,184)	(1,485)	(3,933)	(1,748)	(2,754)	(2,441)	(2,624)	(3,166)	(20,425)
Government grants	0	0	0	(35,750)	(5)	0	(136)	0	(1)	0	0	(35,892)
<b>Total Income</b>	<b>(6)</b>	<b>(52)</b>	<b>(32)</b>	<b>(37,934)</b>	<b>(1,490)</b>	<b>(3,933)</b>	<b>(1,884)</b>	<b>(2,754)</b>	<b>(2,442)</b>	<b>(2,624)</b>	<b>(3,166)</b>	<b>(56,317)</b>
Employee expenses	1,467	205	762	4	1,602	3,317	1,234	1,501	2,878	3,433	430	16,833
Other service expenses	46	800	159	38,431	761	2,542	1,222	2,702	718	2,660	1,028	51,069
<b>Total Expenditure</b>	<b>1,513</b>	<b>1,005</b>	<b>921</b>	<b>38,435</b>	<b>2,363</b>	<b>5,859</b>	<b>2,456</b>	<b>4,203</b>	<b>3,596</b>	<b>6,093</b>	<b>1,458</b>	<b>67,902</b>
<b>Net Expenditure</b>	<b>1,507</b>	<b>953</b>	<b>889</b>	<b>501</b>	<b>873</b>	<b>1,926</b>	<b>572</b>	<b>1,449</b>	<b>1,154</b>	<b>3,469</b>	<b>(1,708)</b>	<b>11,585</b>
Support service recharges	(1,299)	1,642	160	557	(1,612)	(3,602)	898	1,039	1,069	489	430	(229)
<b>Net Expenditure after recharges</b>	<b>208</b>	<b>2,595</b>	<b>1,049</b>	<b>1,058</b>	<b>(739)</b>	<b>(1,676)</b>	<b>1,470</b>	<b>2,488</b>	<b>2,223</b>	<b>3,958</b>	<b>(1,278)</b>	<b>11,356</b>

## Reconciliation of Segment Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2012/13 £000	2011/12 £000
Net expenditure in the Segments Analysis	11,043	11,356
Net expenditure of services and support services not included in the Analysis	0	0
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	7,696	5,410
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(1,139)	4,041
<b>Cost of services in Comprehensive Income and Expenditure Statement</b>	<b>17,600</b>	<b>20,807</b>

## Recognition to Subjective Analysis

2012/13	Segment Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(19,870)	2,495	2,553	(14,822)	(2,554)	(17,376)
Surplus or deficit on associates or joint ventures	0	0	0	0	0	0
Interest and investment income	0	(23)	381	358	(5,812)	(5,454)
Income from council tax	0	0	0	0	(10,437)	(10,437)
Government grants and contributions	(37,565)	(494)	345	(37,714)	(4,453)	(42,167)
NNDR Redistribution	0	0	0	0	(4,061)	(4,061)
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	(326)	(326)
<b>Total Income</b>	<b>(57,435)</b>	<b>1,978</b>	<b>3,279</b>	<b>(52,178)</b>	<b>(27,643)</b>	<b>(79,821)</b>
Employee expenses	17,752	38	0	17,790	0	17,790
Other service expenses	50,861	(1,428)	(210)	49,223	210	49,433
Support Service recharges	(135)	0	0	(135)	0	(135)
Depreciation and impairment	0	7,108	(4,071)	3,037	4,071	7,108
Interest payments	0	0	(137)	(137)	5,021	4,884
Precepts & Levies	0	0	0	0	2,280	2,280
Payments to Housing Capital Receipts Pool	0	0	0	0	0	0
<b>Total Expenditure</b>	<b>68,478</b>	<b>5,718</b>	<b>(4,418)</b>	<b>69,778</b>	<b>11,582</b>	<b>81,360</b>
<b>Surplus or deficit on the provision of services</b>	<b>11,043</b>	<b>7,696</b>	<b>(1,139)</b>	<b>17,600</b>	<b>(16,061)</b>	<b>1,539</b>

2011/12	£000	Segment Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(20,425)		2,297	2,494	(15,634)	(2,494)	(18,128)
Surplus or deficit on associates or joint ventures	0	0	0	0	0	0	0
Interest and investment income	0	335	0	335	(6,614)		(6,279)
Income from council tax	0	0	0	0	(10,369)		(10,369)
Government grants and contributions	(35,892)	309	(390)	(35,973)	(3,869)		(39,842)
NNDR Redistribution	0	0	0		(3,531)		(3,531)
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	(438)		(438)
<b>Total Income</b>	<b>(56,317)</b>	<b>2,941</b>	<b>2,104</b>	<b>(51,272)</b>	<b>(27,315)</b>		<b>(78,587)</b>
Employee expenses	16,833	220	0	17,053	0		17,053
Other service expenses	51,069	572	13	51,654	247		51,901
Support Service recharges	(229)	0	0	(229)	0		(229)
Depreciation and impairment	0	1,815	1,924	3,739	(1,924)		1,815
Interest payments	0	(138)	0	(138)	5,305		5,167
Precepts & Levies	0	0	0	0	2,244		2,244
Payments to Housing Capital Receipts Pool	0	0	0	0	0		0
<b>Total Expenditure</b>	<b>67,673</b>	<b>2,469</b>	<b>1,937</b>	<b>72,079</b>	<b>5,872</b>		<b>77,951</b>
<b>Surplus or deficit on the provision of services</b>	<b>11,356</b>	<b>5,410</b>	<b>4,041</b>	<b>20,807</b>	<b>(21,443)</b>		<b>(636)</b>

\* Minor reclassification of costs following review

## 25 ACQUIRED AND DISCONTINUED OPERATIONS

There have been no acquired or discontinued operations in 2012/13.

## 26 MEMBERS ALLOWANCES

The Authority paid the following amounts to members of the council during the year:

	2012/13 £000	2011/12 £000
Attendance Allowances	305	305
Expenses	29	27
<b>Total</b>	<b>334</b>	<b>332</b>

27 OFFICERS REMUNERATION

<b>Corporate Post Holder Title</b>	<b>Total Remuneration excluding pension contributions</b>	<b>Employer Pension Contributions</b>	<b>Total Remuneration including pension contributions</b>
<b>2012/13</b>	<b>£</b>	<b>£</b>	<b>£</b>
Chief Executive	114,119	19,429	133,548
Director Community Services	90,435	15,697	106,132
Director of Corporate Resources (Section 151 Officer)	87,198	15,137	102,335
Head of Strategic Planning & Performance	54,745	9,520	64,265
Head of Financial & Legal Services	67,611	11,826	79,437
Head of Corporate Support Services	68,158	11,900	80,058
Head of Leisure & Economic Development	65,312	10,690	76,002
Head of Planning & Environmental Services	68,182	11,900	80,082
Head of Operational Services	71,001	12,378	83,379
Head of Housing & Community Development	68,263	11,900	80,163
	<b>755,024</b>	<b>130,377</b>	<b>885,401</b>
<b>2011/12</b>	<b>£</b>	<b>£</b>	<b>£</b>
Chief Executive	117,790	19,429	137,219
Director Community Services	90,435	15,697	106,132
Director of Corporate Resources (Section 151 Officer)	62,547	9,660	72,207
Director Development & Environment	99,351	16,343	115,694
	<b>0</b>		
Head of Strategic Planning & Performance	54,400	9,520	63,920
Head of Financial & Legal Services	72,029	12,600	84,629
Head of Corporate Support Services	68,076	11,900	79,976
Head of Leisure & Economic Development	46,831	5,190	52,021
Head of Planning & Environmental Services	68,516	11,900	80,416
Head of Operational Services	73,979	12,855	86,834
Head of Housing & Community Development	67,923	11,790	79,713
	<b>821,877</b>	<b>136,884</b>	<b>958,761</b>

The number of employees , including senior officers, whose remuneration excluding pension contributions was £50,000 or more in bands of £5000 were;

Remuneration Band	Number of Employees 2012/13	Number of Employees 2011/12
£50,000 - £54,999	7	6
£55,000 - £59,999	2	4
£60,000 - £64,999	2	0
£65,000 - £69,999	6	3
£70,000 - £74,999	1	2
£75,000 - £79,999	0	1
£80,000 - £84,999	0	0
£85,000 - £89,999	1	0
£90,000 - £94,999	1	1
£95,000 - £99,999	0	1
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000 - £114,999	1	0
£115,000 - £119,999	0	1

## 28 EXIT PACKAGES

The number of exit packages with total cost per band and total cost of the redundancies are as follows:

Exit package cost band	Number of Compulsory redundancies		Number of other agreed departures		Number of exit packages by exit band		Total cost of exit packages in each band	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13 £000	2011/12 £000
£0 - £20,000	0	4	0	4	0	8	0	66
£20,001 - £40,000	0	1	0	0	1	1	36	23
£40,001 - £60,000	0	3	0	0	0	3	0	159
<b>Total</b>	<b>0</b>	<b>8</b>	<b>0</b>	<b>4</b>	<b>1</b>	<b>12</b>	<b>36</b>	<b>248</b>

## 29 EXTERNAL AUDIT COSTS

	2012/13 £000	2011/12 £000
Fees payable with regard to external audit services carried out by the appointed auditors for the year	66	110
Fees payable in respect of statutory inspections	0	0
Fees payable for the certification of grant claims and returns for the year	15	31
Fees payable in respect of other services provided during the year	0	0
<b>Total</b>	<b>81</b>	<b>141</b>

### 30 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2012/13 £000	2011/12 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Demand on the collection Fund	(10,437)	(10,369)
Non-domestic rates redistribution	(4,061)	(3,531)
Revenue Support Grant	(79)	(1,091)
Council Tax Freeze Grant	(204)	(203)
Locally Based Grants	(358)	(107)
New Homes Bonus	(707)	(441)
s.106 contributions	(2,576)	(1,551)
Capital Government grants	(507)	(476)
Other contributions	(23)	0
<b>Total</b>	<b>(18,952)</b>	<b>(17,769)</b>
<b>Credited to Services</b>		
Benefits Grants	(37,550)	(35,573)
Other Government Grants	(227)	(284)
Other grants	(535)	(429)
<b>Total</b>	<b>(38,312)</b>	<b>(36,286)</b>

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The year end balances are as follows:

	2012/13 £000	2011/12 £000
<b>Capital Grants Receipts in Advance</b>		
Section 106 Contributions	(505)	(505)
Other contributions	(150)	0
<b>Total</b>	<b>(655)</b>	<b>(505)</b>

### 31 RELATED PARTIES

The Authority 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 Authority.

**Central Government** - has effective control over the general operations of the Authority, it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 24 (Amounts reported for resource allocation decisions).

Grant receipts outstanding at 31 March 2013 are shown in note 30 (Grant income).

**Local Government** - West Sussex County Council, Sussex Police Authority and Parish Councils within Horsham District for precepts (details contained within the Collection Fund Account);  
West Sussex County Pension Fund for pension from and on behalf of Horsham District Council employees (details contained within the Income and Expenditure Account);

**Council Members** - Councillors have direct control over the council's financial and operating policies. The total of members allowances paid in 2012/13 is shown in note 26.

**Senior Officers** - are defined as the Chief Executive together with the Directors and Heads of Service which together make up the Corporate Management Team. These Officers have the responsibility of managing the Council and have power to direct or control the major activities of the authority, in particular those involving the expenditure of money. Details of senior officer remuneration is shown in note 27. There were no related party disclosures by senior officers in 2012/13.

## Partnerships and shared arrangements

### Census

As part of the CenSus partnership between Horsham , Mid Sussex and Adur District Council there is an agreement to share certain costs. The following costs were paid in respect of the 2012/13 financial year:

#### ICT - hosted by Horsham District Council

	£000	Outstanding at 31.3.13 (due to HDC) £000
Mid Sussex	709	25
Horsham	592	0
Adur & Worthing	1,005	49

#### Revenues and Benefits - Service hosted by Mid Sussex District Council

	£000	Outstanding at 31.3.13 (payable to MSDC) £000
Mid Sussex	1,076	0
Horsham	1,029	(309)
Adur	838	0

### Building Control

Horsham District Council provide the Building Control service for Crawley Borough Council. Crawley discharged this function under an agreement pursuant to sections 101 and 111 of the Local Government Act 1972, section 3 of the Local Government Act 1999 and the Local Authorities (Arrangements for the Discharge of Functions)(England) Regulations 2000/2851. The total contribution paid by Crawley for 2012/13 amounted to £274k and £73k was outstanding as at 31<sup>st</sup> March 2013.

### Procurement Service - shared resource

The procurement staff within Crawley and Horsham have been pooled and are treated as a shared resource between Crawley, Horsham and Mid Sussex. In 2012/13 the costs for each authority were:

	£000	Outstanding at 31.3.13 (due to HDC) £000
Crawley	102	7
Horsham	55	0
Mid Sussex	47	12

## 32 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2012/13 £000	2011/12 £000
<b>Opening Capital Financing Requirement</b>	12,463	8,439
<b>Capital Investment</b>		
Property, Plant & Equipment	556	3,603
Investment Properties	509	1,754
Intangible Assets	36	0
Revenue Expenditure Funded from Capital Under Statute	760	2,730
<b>Sources of finance</b>		
Capital receipts	(1,210)	(438)
Government grants and other contributions	(549)	(2,618)
Sums set aside from revenue:		
Direct revenue contributions	(102)	(342)
MRP/loans fund principal	(751)	(665)
Closing Capital Financing Requirement	11,712	12,463
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing	(751)	4,024
Increase/ (decrease) in Capital Financing Requirement	(751)	4,024

### 33 LEASES

#### Authority as Lessee

	31 March 2013 £000	31 March 2012 £000
<b>Finance Leases</b>		
Vehicles, Plant, Furniture & Equipment	47	47
	<u>47</u>	<u>47</u>

The Council's lone finance lease is for a digital projector and the £47k above reflects the historic cost of this asset. The Council is committed to making minimum payments of £10,600 under the lease. The annual depreciation and minimum revenue provision is £9,500 payable up to and including 2014/15.

#### Operating Leases

The Council leases printer/copiers for its offices - The lease was entered into in July 2009

Minimum lease payments due in future years:

	31 March 2013 £000	31 March 2012 £000
Not later than one year	42	42
Later than one year and not later than five years	0	42
Later than five years	0	0
	<u>42</u>	<u>84</u>

The expenditure charged to revenue services in the Comprehensive Income and Expenditure Statement during the years in relation to operating leases was:

	2012/13 £000	2011/12 £000
Minimum lease payments	42	42
Contingent rents		
	<u>42</u>	<u>42</u>

#### Authority as Lessor

##### Finance Leases

The Council has no investment in finance leases.

##### Operating Leases

The Council leases out a range of properties under operating leases for community services and commercial rents. The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March 2013 £000	31 March 2012 £000
Not later than one year	1,900	1,900
Later than one year and not later than five years	5,300	5,800
Later than five years	8,300	9,400
	<u>15,500</u>	<u>17,100</u>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. The council received contingent rent of £0.34m in 2012/13 (£0.47m in 2011/12).

### 34 REVALUATION GAINS

During 2012/13, the Authority has recognised a net revaluation loss of £4.898m in relation to the following:

	£000
Miscellaneous Properties	101
Town Hall	(664)
Council Buildings	652
Horsham Park (buildings)	67
Swan Walk	3793
Oakhurst Business Park	660
Orchard Surgery, Horsham	230
Jubilee Car Park	12
Other	47
	<u>4,898</u>

The revaluation losses have been charged to the following lines within the Comprehensive Income and Expenditure Statement.

	£000
Central Services	7
Cultural	46
Environmental	2
Planning	38
Highways and Roads	12
Housing	69
Corporate and Democratic	653
<b>Cost of Services</b>	<u>827</u>
Investment Properties	<u>4,071</u>
<b>Provision of Services</b>	<u>4,898</u>

### 35 TERMINATION BENEFITS

The Authority terminated the contracts of one employee in 2012/13 incurring redundancy costs of £36k.

### 36 DEFINED BENEFIT PENSION SCHEMES

#### Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be paid until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time the employees earn their future entitlement.

The Council contributes to the Local Government Pension Scheme which is administered by West Sussex County Council. It is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

In addition, the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases and early access pension costs. In 2012/13 these amounted to £120,184 (£162,005 in 2011/12) representing 1.1% of pensionable pay (1.6% in 2011/12). The Council also made capital payments totalling £191,737 2012/13 relating to costs for the early access to pension for staff who left and were eligible in the corporate restructure, this has been funded by a provision which was established in 2008/09 for the purpose.

#### Change in accounting policy

The council has adopted the amendment to IAS19, Retirement benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid market value. Further details are given in the exceptional items note.

### 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 actually 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 Movements in Reserves Statement.

The Council has a shared service arrangement with Mid Sussex and Adur District for the Revenues and Benefits service and with the same authorities and Worthing Borough Council for central Information Technology service. The Revenues and Benefits Service is hosted by Mid Sussex and the Information Technology service is hosted by Horsham, in previous years the hosting authorities included the total assets and liabilities of that service in its accounts. From 2012-13 each partner will show its share of the pension assets and liabilities in the accounts.

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.

	2012/13	2011/12
	£000	£000
<b><u>Comprehensive Income and Expenditure Statement</u></b>		
Cost of Services:		
- current service cost	2,128	2,187
- past service costs	0	10
- settlements and curtailments	8	30
- Net liabilities assumed on business combination	0	40
Financing and Investment Income and Expenditure		
- interest cost	4,884	5,167
- expected return on scheme assets	(5,432)	(6,279)
Total Post Employment Benefit Charged to the Surplus or deficit on the provision of services	1,588	1,155
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
- adjustment to Census shared services apportionment of actuarial gains and losses	(627)	0
- actuarial gains and losses	3,335	6,897
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	4,296	8,052
<b><u>Movement in Reserves Statement</u></b>		
- reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the Code	(1,588)	(1,155)
Actual amount charged against the General Fund Balance for pensions in the year:		
- employers contributions payable to scheme	2,148	2,134
	560	979

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2013 is a loss of £2.709m.

In 2012/13 the pension assets, liabilities and reserve have been adjusted to include the Horsham District Council share of the total Census partnership per International Accounting Standard 31- Accounting for Joint Ventures. Previously, as the host authority for the service, the council only included Census ICT in its statement of accounts (Mid Sussex included the Census Revenues and Benefits figures within its statement of accounts).

The effect of the adjustment in year relating to prior year activity was:

	Census	
	ICT	Revenues and Benefits
	£000	£000
Long term asset	-2178	3006
Long term liability	2335	-2536
<b>Impact on net assets</b>	<b>157</b>	<b>470</b>
Pension Reserve	-157	-470
<b>Impact on total reserves</b>	<b>-157</b>	<b>-470</b>

#### Assets and Liabilities in relation to Post -employment Benefits

Reconciliation of present value of the scheme liabilities:

#### Funded Liabilities - LGPS

	2012/13 Census £000	2012/13 HDC £000	2011/12 Census £000	2011/12 HDC £000
Reconciliation of present value of the scheme liabilities:				
Balance at 1 April	(3,144)	(98,970)	(1,941)	(91,960)
Adjustment to Census partnership balances for prior years	(201)	0	0	0
Current service cost	(158)	(1,970)	(177)	(2,010)
Interest cost	(164)	(4,720)	(157)	(5,010)
Contributions by scheme participants	(53)	(640)	(61)	(650)
Actuarial gains and losses	(600)	(11,170)	(13)	(3,680)
Benefits paid	0	3,950	0	4,380
Past service costs	0	0	0	(10)
Loss on curtailments	(8)	0	0	(30)
Liabilities assumed in a business combination	0	0	(795)	0
Balance at 31 March	(4,328)	(113,520)	(3,144)	(98,970)

Reconciliation of fair value of the scheme assets:

Balance at 1 April	2,933	90,390	1,888	89,140
Adjustment to Census partnership balances for prior years	828	0	0	0
Expected rate of return	222	5,210	189	6,090
Actuarial gains / (losses)	344	8,090	(104)	(3,100)
Assets distributed on settlements	0	0	0	0
Employer contributions	138	2,010	144	1,990
Contributions by scheme participants	53	640	61	650
Benefits paid	0	(3,950)	0	(4,380)
Assets acquired in a business combination	0	0	755	0
Balance at 31 March	4,518	102,390	2,933	90,390

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on the schemes assets in the year was £13.4 (£101k for Census and £13.3m for HDC).

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	2012/13 Census	2012/13 HDC	2011/12 Census	2011/12 HDC	2010/11 Census £m	2010/11 HDC £m	2009/10 HDC £m
Present value of liabilities	4,518	102,390	2,933	90,390	1,888	89,140	82,960
Fair value of assets in the Local Government Pension Scheme	(4,328)	(113,520)	(3,144)	(98,970)	(1,941)	(91,960)	(117,440)
Surplus / (Deficit)	190	(11,130)	(211)	(8,580)	(53)	(2,820)	(34,480)
Experience Gains/(Losses) on assets	344	8,090	(104)	(3,100)	18	1,590	20,610
Experience Gains/(Losses) on liabilities	0	160	0	(1,320)	2	11,760	0

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £10.940m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £99.995m.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy as the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by Hymans Robertson LLP the scheme's actuary. The total contributions expected by the actuaries to be made to the Local Government Pension scheme by the council in the year to 31 March 2014 is £1.8m (this includes £130k estimated for the HDC share of Census).

### 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 dependant on assumptions about mortality rates, salary levels, etc. The pension scheme is assessed by Hymans Robertson for the County Council Fund being based on the latest full valuation of the scheme as at 31st March 2010.

The principal assumptions used by the actuary have been:

		<u>2012/13</u>	<u>2011/12</u>
Long term expected rate of return on assets in the scheme:			
Equity investments		4.5%	6.2%
Bonds		4.5%	4.3%
Property		4.5%	4.4%
Cash		4.5%	3.5%
Mortality assumptions:			
Longevity at 65 for current pensioners:	Men	22.7	22.7
	Women	24.2	24.2
Longevity at 65 for future pensioners:	Men	24.3	24.3
	Women	26.4	26.4
Rate of inflation / pension		2.8%	2.5%
Rate of increase in salaries		5.1%	4.8%
Expected return on assets		4.5%	5.8%
Rate of discounting scheme liabilities		4.5%	4.8%

An allowance is included for future retirements to elect to take 50% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

## History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2012/13	2011/12	2010/11	2009/10	2008/09
	%	%	%	%	%
Differences between the expected and actual return on assets	7.9%	-3.4%	1.8%	24.8%	-35.4%
Experience gains and losses on liabilities	-0.1%	1.3%	-12.5%	0.0%	0.1%

## 37 CONTINGENT LIABILITIES

International Accounting Standard 37 requires the council to disclose contingent liabilities. These arise from past events that might result in an obligation to the authority.

Horsham District Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a claim of £1,613 plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims is at present £303,000 plus interest and costs. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti competitive behaviour. It is not clear what the value of any such claim would be against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

## 38 CONTINGENT ASSETS

There were no contingent assets at 31st March 2013.

## 39 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- a) Credit Risk** – the possibility that other parties might fail to pay amounts due to the Council
- b) Liquidity Risk** – the possibility that the Council might not have funds available to meet its commitments to make payments
- c) Market Risk** – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements
- d) Re-financing risk** – the possibility that the Council might need to renew a financial instrument on its maturity at disadvantageous interest rates or terms.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Treasury Management Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria.

The detail Strategy is approved each year by the Council and incorporates indicators stipulated by the CIPFA codes on Treasury Management and CIPFA prudential code. The authorised limit for external borrowing in 2012/13 was £15m and limit per institution was £5m and limit for long term investment was £3m. The actual performance against Treasury Management Strategy is reviewed by the Accounts, Audit and Governance Committee of the Council annually.

The analysis below summarises the Council's exposure to risk using historic default rates for different categories of instruments. Historic default rates are, of course, no guide to the future so the figures below must be viewed in the light. Current credit conditions are a reason for some concern but this is not judged to require an adjustment for current market conditions to the historic rates which are a long-term average.

	Amount at 31 March 2013	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2013	Estimated maximum exposure to default and uncollectibility at 31 March 2013	Estimated maximum exposure at 31 March 2012
	£000			£000	£000
	A	B	C	(AxC)	
AAA rated counterparties	1,700	0.00%	0.00%	0	0
AA rated counterparties	0	0.02%	0.02%	0	0
A rated counterparties	11,177	0.07%	0.07%	8	4
BBB rated counterparties	2,000	0.21%	0.21%	4	0
Trade debtors	1,460	0.00%	0.00%	0	0

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits. The trade debtors figure takes into account the bad debt provision which is based on the best estimate of default so no further default estimate is shown.

The Council does not generally allow credit for its trade debtors, such that £1.17m of the £1.46m balance is past its due date for payment.

The past due amount can be analysed as follows:

Age	31-Mar-13 £000s	31-Mar-12 £000s
Less than three months	956	702
Three to six months	97	89
Six months to one year	58	51
More than one year	64	68
Total	1,175	910

### Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the Treasury Management Strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This ensures that cash is available when it is needed.

The Council has an overdraft facility of £0.5m and can borrow from the money markets to cover any day to day cash flow need. The PWLB also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful).

There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial liabilities is as follows:

	31-Mar-13 £000s	31-Mar-12 £000s
Less than one year	6,939	5,367
Between one and two years	-	-
Between two and five years	15	24
More than five years	4,000	4,000
Total	10,954	9,391

## Market Risk

### Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instruments periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates - the interest expense will rise;
- borrowings at fixed rates - the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income will rise
- investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not have an impact on Surplus or Deficit whereas changes in interest receivable on variable rate borrowings and investments will have an effect.

The Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Director of Corporate Resources will also monitor market and forecast interest rates within the year to adjust exposures appropriately.

### Sensitivity to Interest Rate Changes

The Council does not hold borrowings or investments at variable rates so there is no link effect on the net income of the Council. To some extent the call deposits and maturing fixed rate investments would be affected by a persisting change to rates. The Council would, of course, act in order to minimise the effect of any movement and with time may well be able reduce the effect significantly. The assessment of any longer term quantitative effect of any rate move is therefore not possible with any degree of confidence. To give some guide to the magnitude of the possible effect if all other variables stayed the same and a rate change of 1% were to apply to the investments held at 31st March 2013 and persist for a year the magnitude of effect would be £0.12m.

### Price Risk

The Council, excluding the pension fund, does not generally invest in instruments such as equities or marketable bonds with this type of risk.

### Foreign exchange risk

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

## 40 FURTHER INFORMATION ON HERITAGE ASSETS

The Council has been active in maintaining its museum collection, artworks and other heritage assets although it has not published a formal overarching heritage assets policy it will be developing one in 2013. The Museum in March 2013 received the new national agreed Accreditation standard managed by Arts Council England. Horsham Museum Collecting and Disposal policy has been revised and published in 2012. It will not change for 5 years when it will be revised in light of national or local policy changes. The museum is actively cataloguing its collection and this is becoming available on its website [www.horshammuseum.org](http://www.horshammuseum.org).

The Council's District Plan includes as a priority area the building of an arts, leisure and culture reputation that supports the local economy by the promotion of local arts and culture to both residents and visitors. The council operates a museum in

Horsham with significant collection of historic documents, ceramics, photographs, furniture and other exhibits. It also provides a number of public artworks and maintains the major town war memorial.

The Museum has very limited means for acquisitions and in the past five years has made no significant purchases with only two items exceeding £1000.

### Museum collection

The museum collections cover a range of areas of interest. There is no reliable cost information for the collection and a comprehensive valuation would be costly as the collections are very varied and of items of lower value and is not deemed to be worth the extra information it would bring the users of the accounts.

The major collections are listed below with some detail of their nature and scale:

#### Paintings, drawings and prints

The museum did not have an art gallery until 2010 but rather a collection of pictures were acquired because of local connections. None of the pictures in museum collection has a significant value with the highest valued thought to be in £1000's.

#### Ceramics

The Museums collections consist of historic examples from across UK as well as contemporary items made by potters from South East, usually Sussex.

#### Furniture

A number of items are held with modest value. The only notable piece is a large 17ft oak refectory table dating to 1670.

#### Fossil Collection

The Museum has three notable specimens – Polacanthus Rudgewikensis and two dragonfly specimens, as well as 2,000 minerals specimens.

#### Manuscript collection

The museum holds 400 papers connected to the Shelley Family who resided in the district.

There is also a large collection of legal papers concerning 18<sup>th</sup> and 19<sup>th</sup> century crime, trade and civic life and a notable collection of documents on political corruption.

The collections include around 900 sale particulars from the 1780s to date. Older sale particulars may have a modest market value. There is also a collection of over 1000 Victorian birthday and Christmas cards each of which may have collectors' market value.

The museum has 1,875 posters dating back to the 18<sup>th</sup> century. Each poster will have a modest value.

There is also a large collection (approximately 2500) of ephemera of the like of train tickets, celebratory dinner tickets, knitting patterns and sale lists of wine for Christmas.

#### Photographic collection

This consists of about 3,000 slides, 3,000 photographic images, 2,000 postcards and collections associated with prominent photographers notably – Thomas Honywood, Felice Beato and Samuel Bourne.

Thomas Honywood was born in Horsham and the collection of 100 or so photographs and photographically printed textiles includes important pieces of his work. Felice

Beato and Samuel Bourne are noted early photographers and the Museum has 320 or so images.

The slides are the Cramp collection depicting mainly Horsham through the ages. The postcard collection spans the full range of interest and type and due to an active postcard market may have modest value.

### Book Collection

Horsham museum has one of the largest collections of books on or by Percy Bysshe Shelley and his circle notably Mary Shelley, Thomas Medwin, Thomas Jefferson Hogg and Byron. It also has books by noted authors associated with the district Hilary Belloc, JE Millais and WS Blunt.

### Horsham museum ethnographic and archaeological collections

The ethnographic collection has a range of over 1000 objects. It includes Japanese armour, Tribal hardwood clubs, a 17th century Thai reclining Buddha.

### Lorinery and saddlery items

The Museum holds 5000 items although no single item is outstanding in importance.

### Other collections

There are various historical items not within a category above such as a fire engine, various pieces of agricultural equipment and a collection of historical cycles.

### **Art works**

The council holds a number of art works either constructed by the council or provided as a part of a large development as planning gain.

There are no current valuations for the works as it is deemed that the usefulness of a valuation to the account reader is not commensurate with the costs. The market value of the works is very dependent on the reputation of the artist. Although some the artists concerned are well known nationally it is not thought that any of the works is outstanding enough to bring a very large value in the market. The historic costs of some these works from the 2000's onwards are available so these are used as values in the balance sheet.

The more recent works include Sundial by John Skelton (1923-99); William Pirie and Sundial by Lorne McKean and collaborators; five bronze roundels by Edwin Russell; St Leonard's Forest Dragon and Southwater Iguanodon by Hannah Stewart; Rising Universe installation by Angela Connor and the Tree of Light by Steve Geliot. Older works include a bronze of Fighting Grouse by JG Millais (1865-1931)

### **War memorial**

Stone obelisk designed by local architect C B Godman with memorial wall surrounded by decorative fences. This is valued exceptionally as depreciated replacement cost as it is not kept per se for its artistic merit but as a symbolic place for a public cultural function and which the Council would be expected to provide in a comparable way.

**COLLECTION FUND**

2011-12 £		2012-13 £
	<b><u>Income</u></b>	
79,762,283	Income from Council Tax	80,263,955
	Transfers from General Fund	
6,333,849	- Council Tax Benefits	6,233,620
2,176	- Transitional Relief	2,402
6,336,025		6,236,022
37,775,897	Income Collectable from Business Ratepayers	37,318,712
	Contributions	
0	-Towards previous years' estimated Collection Fund deficit	443,231
<b>123,874,205</b>	<b>Total Income</b>	<b>124,261,920</b>
	<b><u>Expenditure</u></b>	
85,811,103	Precepts and Demands	85,995,220
	Business Rate	
37,601,724	- Payment to National Pool	37,141,870
174,173	- Costs of Collection	176,842
37,775,897		37,318,712
	Bad and Doubtful Debts	
1,679	- Write-offs	239,975
300,244	- Provisions	141,103
301,923		381,078
<b>123,888,923</b>	<b>Total Expenditure</b>	<b>123,695,010</b>
(14,718)	Increase/(Reduction) in Fund Balance for the year	566,910
(443,231)	Balance Brought Forward	(457,949)
<b>(457,949)</b>	<b>Balance carried forward</b>	<b>108,961</b>

## NOTES TO THE COLLECTION FUND

### Note 1 - Council Tax

This account represents the statutory requirement for each billing authority to maintain a separate Collection Fund which shows the transactions of the billing authority in relation to Non-Domestic Rates and Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. Since the introduction of Council Tax on 1 April 1993, the Collection Fund is consolidated with the other accounts of the Council. The accounts have been prepared on an accruals basis.

The Council Tax is based upon property values as at 1st April 1991. Property values are grouped within a range of value bands, as shown below. In order to calculate the Council Tax base, the number of properties within each band is shown as a "Band D equivalent" by expressing each band as a proportion of Band D as indicated in the table below.

BAND	VALUE RANGE	PROPORTION OF BAND "D"	BAND "D" EQUIVALENT NO. OF PROPERTIES
	£		
Reduced A	up to 40,000	5/9	0
A	up to 40,000	6/9	1,110
B	40,000-52,000	7/9	3,439
C	52,000-68,000	8/9	9,005
D	68,000-88,000	1	10,917
E	88,000-120,000	11/9	11,276
F	120,000-160,000	13/9	10,157
G	160,000-320,000	15/9	10,857
H	over 320,000	2	1,354
COUNCIL TAX BASE			58,115

The reduced Band A charge is applied to those residents entitled to a disabled relief reduction.

### Note 2 - Income from Business Rates

Under the revised arrangements for uniform business rates, the Council collects Non-Domestic Rates for its area which are based on local rateable values multiplied by a uniform rate. The total Non-Domestic Rateable Value at 31st Dec 2012 was £100.049m and the National Non-Domestic Rate multiplier for the year was 0.458.

The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government, which, in turn, pays back to authorities their share of the pool based on a standard amount per head of the local adult population.

Note 3 - Precepts and Demands

<u>2011-12</u>		<u>2012-13</u>
£		£
10,370,548	Horsham District Council Precept	10,421,503
8,030,145	Sussex Police Authority	8,044,320
<u>67,410,410</u>	West Sussex County Council	<u>67,529,397</u>
<u>85,811,103</u>	Total	<u>85,995,220</u>

Note 4 - Council Tax Surpluses and Deficits

In accordance with the accounting code of practice surpluses and deficits arising from the Collection of Council Tax are to be apportioned between respective authorities on the basis of their precepts or demands on the Collection Fund.

31st March 2013

£

Accumulated Deficit at 31/3/13 (108,961)

Apportionment based on 2012/13 precepts and demands:

	Total	%	£
Horsham District Council	10,421,503	12.12%	(13,206)
Sussex Police Authority	8,044,320	9.35%	(10,188)
West Sussex County Council	<u>67,529,397</u>	78.53%	<u>(85,567)</u>
	85,995,220	100.00%	(108,961)

## GLOSSARY

<b>ACCRUALS</b>	Amounts charged for goods or services received or provided during the year, for which payment has not been made or income due has not been received at the year end.
<b>BALANCES</b>	The amounts remaining at the year end on the various funds of the Council
<b>CAPITAL EXPENDITURE</b>	Expenditure on the acquisition of assets either directly by the Local Authority or indirectly in the form of grants to other persons or bodies that will give benefit for a number of years.
<b>CAPITAL RECEIPTS</b>	Receipts from the sale of property , plant and equipment e.g. land, buildings etc.
<b>CENTRAL SUPPORT SERVICES</b>	The expenditure on the central administration of the Council, including the cost of accommodation.
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy.
<b>COLLECTION FUND</b>	A statutory fund maintained by a billing authority that is used to record local taxes and non-domestic rates collected by the authority, payments to precepting authorities, the national pool of non-domestic rates and its own general fund.
<b>COMMUNITY ASSETS</b>	Assets that are not used for operational purposes, have an indeterminable useful life and which a local authority intends to hold in perpetuity. Land held as open space or common land is an example of a community asset.
<b>CONTINGENT ASSET</b>	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.
<b>COUNCIL TAX</b>	A locally determined charge based on property values and levied by a local authority to enable it to provide its services.
<b>CREDITORS</b>	Individuals and organisations to whom the Council owes money.
<b>DEBTORS</b>	Individuals and organisations who owe money to the Council
<b>DEPRECIATION</b>	A charge to a revenue account to reflect the reduction in the useful economic life of a fixed asset.
<b>EARMARKED RESERVES</b>	Amounts set aside for specific purposes falling outside the definition of provisions.
<b>FAIR VALUE</b>	Amount for which asset could be exchanged or liability settled between two knowledgeable parties with no other motive than to secure a fair price. In most cases this is the actual price paid.

<b>FINANCE LEASE</b>	A lease used to finance the purchase of fixed assets where ownership of the asset passes to the authority at the end of the lease. Finance leases are treated as a credit arrangement i.e. as if it was similar to borrowing.
<b>FINANCIAL INSTRUMENT</b>	A contract that gives rise to a financial asset or liability
<b>FINANCIAL ASSET</b>	A contractual right to receive economic benefits such as cash or right to receive cash or right to favourably exchange a financial asset/liability
<b>FINANCIAL LIABILITY</b>	A contractual obligation to transfer economic benefits such as an obligation to pay over cash or unfavourably exchange a financial asset/liability.
<b>FINANCIAL REPORTING STANDARDS</b>	Accounting practice recommended for adoption by the accountancy profession e.g. in relation to public reporting, accounting policies etc.
<b>FIXED ASSET</b>	A tangible asset that yields benefit to an authority and the services it provides for a period of more than one year.
<b>GENERAL FUND</b>	The main revenue fund of a billing authority from which day to day spending on services (other than the provision of Council housing services) is met.
<b>IAS</b>	International Accounting Standard
<b>MINIMUM REVENUE PROVISION (MRP)</b>	The minimum amount that must be charged to an authority's revenue account to be set aside to pay back debt.
<b>NATIONAL NON-DOMESTIC RATE (NNDR)</b>	This is the charge payable on all business premises and is calculated by multiplying the rateable value of the property by a nationally set rate multiplier
<b>OPERATING LEASE</b>	Lease of equipment in a similar arrangement to that used for the hire or rent of equipment where ownership of the asset remains with the lessor.
<b>PRECEPT</b>	An amount charged to the collection fund to finance services provided by another authority e.g. the Sussex Police Authority, West Sussex County Council.
<b>PRECEPTING AUTHORITIES PROVISION</b>	<p>Those authorities which are able to raise a precept.</p> <p>A fund to provide for liabilities or losses that are likely to be incurred but the dates and amounts are uncertain.</p>
<b>PUBLIC WORKS LOAN BOARD/ PWLB</b>	The Public Works Loan Board (PWLB) is a statutory body operating within Central Government responsible for lending money to local authorities and other bodies.
<b>REVENUE EXPENDITURE FUNDED AS CAPITAL UNDER STATUTE (REFCUS)</b>	Expenditure that may properly be treated as capital expenditure but which does not represent a Council tangible asset (property, plant and equipment).
<b>S106/ SECTION 106</b>	Contribution paid by developers to Local Planning Authorities in order to offset the costs of the external effects of development under section 106 of Town and Country Planning Act 1990.

## Report to Accounts Audit & Governance Committee

Date of Meeting: 25<sup>th</sup> September 2013

By the Director of Corporate Resources

Decision Report

Not exempt



### Annual Governance Statement 2012/13

#### Executive Summary

The annual review of the Council's governance, risk management and internal control arrangements has been undertaken to support the production of the Annual Governance Statement for 2012/13. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement is correct as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

The aim of the review process is to ensure that the Council has effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives. Additionally, the review process has identified any shortfalls in these arrangements to enable them to be addressed.

#### Recommendations

- i) The Committee is asked to approve the Annual Governance Statement for 2012/13.

#### Reasons for Recommendations

- i) As part of good governance, it is important that the Annual Governance Statement is approved by Members of the Accounts, Audit and Governance Committee.

**Background Papers:** Supporting evidence and Annual Internal Audit Report

**Consultation:** The Corporate Management Team and Monitoring Officer

**Wards affected:** All

**Contact:** Paul Miller

### Background Information

#### 1 Introduction

- 1.1 The Accounts and Audit (England) Regulations 2011 require the Council to review, at least annually, the effectiveness of its governance arrangements and publish an Annual Governance Statement.

#### Background/Actions taken to date

- 1.2 Senior officers have been consulted (see 5.1 below) and supporting documentation has been updated to reflect the current position.
- 1.3 The Accounts Audit and Governance Committee considered the statement at its meeting on the 27<sup>th</sup> of June 2013

#### 2 Statutory and Policy Background

##### Statutory background

- 2.1 Regulation 4 of The Accounts and Audit (England) Regulations 2011 requires that:-
- 4(1) the Council shall be responsible for ensuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk; and
  - 4(2) the Council shall conduct a review at least once in a year of the effectiveness of its system of internal control; and
  - 4(3)
    - a) the findings of the review must be considered by the Members of the Council meeting as a whole or by a committee
    - b) following the review the body or committee must approve an Annual Governance Statement prepared in accordance with proper practices in relation to internal control; and
  - 4(4) the Annual Governance Statement shall accompany the Statement of Accounts.
- 2.2 In 2007 CIPFA/SOLACE published a framework for Corporate Governance: "Delivering Good Governance in Local Government Framework". This framework provides a useful and practical update to the original Framework and follows the six core principles of good governance outlined in the Good Governance Standard for Public Services (2004) which was developed by the Commission on Good Governance in Public Services. CIPFA and SOLACE reviewed the Framework in 2012 to ensure that it remains "fit for purpose". The Framework urges local authorities to review and report on the effectiveness of the governance arrangements,

**3 Details**

- 3.1 The Annual Governance statement is attached in Appendix 2.

**4 Outcome of Consultations**

- 4.1 The Corporate Management Team and Council's Monitoring Officer have been consulted, and comments have been incorporated into the Annual Governance Statement.

**5 Other Courses of Action Considered but Rejected**

- 5.1 None.

**6 Staffing Consequences**

- 6.1 There are no direct staffing consequences arising from this report.

**7 Financial Consequences**

- 8.1 There are no direct financial considerations arising from this report.

## Appendix 1

### Consequences of the Proposed Action

<p>What are the risks associated with the proposal?</p> <p>Risk Assessment attached Yes/No</p>	<p>There are no risks associated with this proposal.</p>
<p>How will the proposal help to reduce Crime and Disorder?</p>	<p>There is not impact on Crime and Disorder</p>
<p>How will the proposal help to promote Human Rights?</p>	<p>There is no impact on Human Rights</p>
<p>What is the impact of the proposal on Equality and Diversity?</p> <p>Equalities Impact Assessment attached Yes/No/Not relevant</p>	<p>There is not impact on Equality and Diversity</p>
<p>How will the proposal help to promote Sustainability?</p>	<p>This report has no effect on sustainability.</p>



## **ANNUAL GOVERNANCE STATEMENT**

### **Scope of Responsibility**

Horsham District Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded and properly accounted for, and that funding is used economically, efficiently and effectively. In discharging these responsibilities the Council is responsible for putting arrangements in place for the proper governance of its affairs in accordance with statute.

In discharging this responsibility, Horsham District Council is responsible for putting in place suitable arrangements for the governance of its affairs, which facilitate the effective exercise of its functions and include arrangements for the management of risk.

The Council follows the CIPFA/ SOLACE framework for delivering good governance. The Annual Governance Statement is based on this framework and is prepared and submitted to the Accounts, Audit and Governance Committee (AAGC) for approval. The Annual Governance Statement is linked to the preparation of statutory accounts which are published in accordance with CIPFA guidelines.

### **Purpose of the Governance Framework**

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

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 risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Horsham District 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 governance framework has been in place at Horsham District Council for the year ended 31 March 2013 and up to the date of approval of the Statement of Accounts.

## **The Council's Governance Framework**

Some of the key principles of the governance framework are set out in the following paragraphs:

The District Plan for Horsham 2011–2015 which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. Delivery of the Plan is supported by service plans, team plans and individual performance development reviews.

The Authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government 2010.

The Chief Internal Auditor is a fully qualified member of the Chartered Institute of Internal Auditors and follows the Public Sector Internal Audit Standards. One of the key roles of Internal Audit is to ensure that there are robust systems of internal control in place to mitigate risks and provide assurance to Members.

During the course of the year the Audit, Accounts & Governance Committee has met quarterly. At each meeting the Chief Internal Auditor presents the outcomes of his work programme of the previous quarter highlighting areas of concern. The Risk Registers are also reviewed on a quarterly basis. The Council's Corporate Management Team also reviews the Risk Registers and Internal Audit Reports on a quarterly basis. The audit of the accounts by the external auditors gives additional assurance

The Annual Governance Statement is approved by the AAGC. The terms of reference for the AAGC include responsibility for reviewing the key areas which comprise corporate governance, namely: - accounts, audit, treasury management and risk management. Members of the Accounts, Audit, and Governance Committee have received external training on how to review the Council's Annual Statement of Accounts and their responsibilities as members of the Committee. Internal Audit has provided training to Members on the Council's risk management process. In addition, the Chair of the Accounts, Audit and Governance Committee attended a workshop in London entitled "The Influential Audit Committee Workshop" in January 2013.

On an annual basis the Council publishes the Annual Statement of Accounts, and also produces the Council's Annual report, which provides information on the Authority's performance against its priorities as identified in the District Plan. The Cabinet is responsible for approving the Council's Risk Management Strategy. The Council reviews and agrees the Treasury Management Strategy, and the AAGC receives reports on the Council's treasury management performance. The Chief Internal Auditor reports quarterly to the AAGC providing details of key audit findings and remedial actions agreed.

Internal Audit undertakes a four year rolling programme of audits and carries out annual audits of the Council's key financial systems which are reviewed by the Council's external auditors as part of the International Standards of Auditing (ISA) requirements. Internal Audit reports include "SMART" risk-assessed agreed action plans which are followed up at six-monthly intervals (or sooner if considered appropriate). Actions followed up, which have not been implemented, are routinely reported to the Accounts, Audit and Governance Committee on a quarterly basis.

The Chief Internal Auditor also presents an annual report to the AAGC. Within this report, in accordance with the requirements of the CIPFA Code of Practice for Internal Auditing in Local Government 2006, the Chief Internal Auditor provides an overall opinion on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems. The overall opinion for the 2012/13 financial year is that "substantial" assurance can be given that there is generally a sound system of internal control designed to meet the Council's objectives, and that the controls are generally being applied consistently. Details of significant improvements to the Council's control environment and significant control issues are detailed below.

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 chief officers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

## **CIPFA / SOLACE – Fundamental Principles of Corporate Governance**

### ***Core Principle (1) ~ Determining the Council's Purpose, its vision for the local area and intended outcomes for the Community.***

The Council aims to deliver high quality services that meet the needs of the local community. This is set out in the Council's District Plan for Horsham 2011–2015 which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. The District Plan supports the Council's Sustainable Community Strategy which is produced by the Horsham District Community Partnership, a broad partnership of groups and organisations, covering a wide range of public, private, voluntary and community interests, which sets out the Council's vision for working in partnership over the longer term. The District Plan is formally reviewed and updated each year and a new District Plan 2011-15 was introduced in April 2011.

Service Plans are produced by each department in accordance with the Council's strategic aims and objectives, and are also linked to their own national and local performance indicators and the risks recorded on their risk registers. In this way, the Council's performance is continuously monitored against its objectives to provide assurance to the community.

The Council conducts a wide range of service specific surveys to ascertain the views and needs of its residents. In addition, it consulted widely as part of developing the Sustainable Community Strategy. A priority within the new District Plan is "The customer is at the heart of what we do" and a key element of that priority is to consult residents, businesses and staff regularly and provide feedback. Prior to the changes introduced by the current government, the Council conducted a Residents' Survey in autumn 2011 using the Horsham District News magazine which goes to every home in the District as a means of disseminating the survey, supported by various measures to encourage participation. The results were shared with Members, respondents and the public, and the information provided is used as a resource which informs the Council when setting and reviewing its priorities. The next Resident's Survey will be conducted in the Autumn of 2013.

The Council has a clear complaints procedure which is available via the Council's website or paper based from the Council's offices. A six-monthly report on all complaints dealt with by the Local Government Ombudsman is presented to the Standards Committee. Complaints, suggestions and comments received are reported quarterly to Corporate Management Team and the Performance Management Working Group.

The Council carries out a regular survey of users of its services and the forms and guidance are available on the Council's website. The Local Government Ombudsman has, in the past, recommended Horsham District Council's quarterly complaints; compliments and suggestions process nationally as an example of best practice.

***Core Principle (2) ~ Members and Officers working together to agree common goals with clearly defined functions and roles.***

The Council's Constitution gives guidance on the roles and responsibilities of Members, the Chief Executive and Chief Officers and the Scheme of Delegation is periodically reviewed. The Council's Financial Regulations and Contract Standing Orders were reviewed, updated and approved by Full Council in December 2012.

The Leader and the Chairmen and Vice Chairmen of Standing Committees receive verbal briefings from Chief Officers on a regular basis and Members now receive training as part of the induction process. A Protocol for Partnership working has been incorporated into the Council's Constitution which details the roles and responsibilities of Members.

The Director of Corporate Resources is the designated Section 151 Officer and the Council's Constitution contains specific details of the overall financial responsibilities of that role. Managers are responsible for legal compliance and the Council Solicitor works closely with departments to advise on legal issues which affect the Council.

The Council's District Plan for 2011–2015 defines the Council's vision and strategy and sets out the Council's key priorities and strategic aims. The Council uses 'Covalent' performance monitoring software and key performance indicators are monitored monthly by Corporate Management Team and reviewed quarterly by Cabinet. The Finance and Performance Working Group (a sub group of the Scrutiny and Overview Committee) provides a scrutiny function of the Council's performance through its quarterly meetings and raises issues with the Cabinet as appropriate. The Annual Report reviewing the Council's activity, costs and performance is made available on the Council's website. Following the introduction of Central Government's 'Transparency Agenda', the Council releases details of payments to suppliers exceeding £500 on the Council's website on a monthly basis.

In promoting the Council's activities externally, the most visible methods are the Council's website and online presence, the Horsham District News magazine (which won a national silver award for best publication in the LG Communications Reputation Awards 2012), media relations, publicity leaflets, campaigns and events, and the use of outdoor media. The Council is also developing its social media usage and uses Facebook, Twitter and YouTube for videos. Amongst the internal communications methods used for staff and Members are the 'Grapevine' newsletter, monthly key messages, team and other meetings, Tom's Talks, Ask Tom (questions to the Chief Executive), the 'Eureka' staff suggestion scheme, the Intranet, and the weekly Members' Bulletin. A Corporate

Communications Strategy was approved by Council in September 2011 and the Leader created a Cabinet responsibility for Communication in its reshuffle in 2012.

Face to face discussions take place with staff through the Management Team / Staff Joint Meeting (to discuss matters of relevance and importance to staff) and the Joint Consultative Forum (a formal meeting between staff representatives and representatives of the Council's Personnel Committee).

There are structured working arrangements in place between Heads of Service and accountants on budget issues. Budgetary reporting and areas of ownership and accountability are clearly defined.

A Project Assurance Group, which was formed in July 2011, reviews the Council's 'key' projects on a monthly basis. Issues, risks and progress against the key milestones are formally reported to the Corporate Management Team (CMT) on a monthly basis. A quarterly report is also submitted to Members.

***Core Principle (3) ~ Promoting our Values and Upholding High Standards of Conduct and Behaviour.***

The culture of the organisation sets the foundation for the prevention of fraud and corruption by creating an environment that is based on openness and honesty in all Council activities. The culture is founded upon good organisational performance, external recognition, high staff morale and good employee attitude to internal controls.

The Council has the following policies/procedures/accreditations in place which aim to prevent or deal with such occurrences:

- Anti-Fraud and Corruption Policy.
- Confidential Reporting Code.
- HR Disciplinary Policies.
- Council's Equality Scheme.
- Information security policies (including an Acceptable Use Policy)

The Council has adopted a Single Equality Scheme and produces an annual Equality and Diversity Report monitoring progress against the scheme. Both are available on the Council's website along with a wide range of Equality and Diversity information. A new Single Equality Scheme is being drafted for 2013 with close links to the District priorities. Internal training on Equality and Diversity is addressed through the corporate induction process and specific training on equality impact assessments is provided.

The Council has incorporated in its Constitution a Member Code of Conduct, an Employee Code of Conduct for employees and a protocol on Members/staff relations. The Council's Standards Committee promotes and maintains high standards of conduct by Councillors and also investigates allegations of misconduct by Members.

A register of declared interests is held for officers. Members are required to declare any interests and Member Registers are available on the Council's website. Members are asked by the Monitoring Officer to review their registers annually. The completion and review of the Member Register of Interests is part of the work programme of the Standards Committee. Revisions to the Member Register of Interests were made in July

2012 to comply with the new provisions of the Localism Act 2011 upon receipt of government regulations defining the new "disclosable pecuniary interest".

***Core Principle (4) ~ Taking informed and Transparent Decisions and Managing Risk.***

The Council's Constitution sets out how the Council operates and the process for policy and decision-making.

A new Risk Management Strategy was developed in April 2012 and has been signed by the Cabinet Member for Efficiency and Resources under delegated authority. The AAGC has responsibility for reviewing the effectiveness of the risk management framework to ensure that the process is embedded into the culture of the authority. All major projects incorporate a full risk assessment prior to action being taken. All project initiation documents include a risk assessment in the report to committee. Internal Audit undertakes an independent review of the risk management framework annually and provides assurance that risk is being managed in accordance with the Council's Risk Management Strategy and procedures.

***Core Principle (5) ~ Effective Management – Capacity and Capability of Members and Officers.***

There is a comprehensive induction and training programme for new officers. Training programmes for Council employees are identified from staff appraisals and personal development programmes. In addition, as specific issues arise, training and development opportunities are provided to ensure that the lessons learned can be shared. Appropriate management training for senior managers is also considered for management conferences which are held on a six monthly basis. New Members to the Council also have an induction programme. They have a comprehensive training programme that incorporates dealing with new legislation, understanding current legislation and developing their personal skills.

***Core Principle (6) ~ Engaging with Local People and other Stakeholders to Ensure Robust Accountability***

The Council's policy on Complaints, Compliments and Suggestions clearly sets out an invitation to residents to contact the Council. Consultation is important on all major issues especially around long term planning for the future of the district, and input from residents is welcomed. The Council listens to resident's comments and reacts accordingly.

The Council's Committee meetings are held in public. The press and public are only excluded when a report is presented as a Part 2 item in accordance with Part 1 of Schedule 12A to the Local Government Act 1972.

The Council's Scheme of Delegation is incorporated into the Council's Constitution. Any amendments to the Scheme of Delegation are subject to Council approval. The Scheme of Delegation was updated in February 2012 following management restructures and a further review commenced in March 2013.

The Council has improved arrangements on partnerships by moving management of the CenSus Partnership to a Joint Committee comprising elected Members from Horsham, Mid-Sussex and Adur and Worthing District Councils.

## **Significant Governance Issues**

### **Introduction**

New significant governance issues are reported to the AAGC. The process of preparing the Annual Governance Statement has in itself added value to the corporate governance and internal control framework of the Council. Appendix 3 details the outcomes of actions agreed in the 2011/12 Annual Governance Statements together with agreed actions in respect of the 2012/13 Annual Governance Statement.

### **Improvements to the Council's Control Environment**

#### **i) Budgetary Control**

A new requirement has been introduced whereby budget holders forecast their income and expenditure to year end as part of their routine budget monitoring process.

#### **ii) Information Security**

The Council's Information Manager has made progress in coordinating the Council's approach to information security. A suite of policies has now been approved, and a programme of training has commenced. The work being undertaken will help to safeguard the Council against significant data breaches and other high impact risks.

#### **iii) Health & Safety**

Good progress has been made. Approximately 50% of the Consultant's recommendations have been implemented. The Council has also appointed a full time officer as the Council's competent health & safety adviser.

#### **iv) Business Continuity Planning**

Departmental business continuity plans have been developed during 2012/13 for the purposes of minimising service/business disruption in the event of a disaster. A corporate business continuity plan has been produced and was validated in an exercise in February 2013.

#### **v) Council's Constitution**

A full review of the Council's Financial Regulations and Contract Standing Orders was completed and approved by Full Council in December 2012.

#### **vi) Audit Follow ups**

Agreed actions from internal audit reports which have not been actioned within agreed timescales are now reported quarterly to the Accounts, Audit &

Governance Committee. The new process has resulted in a significant improvement in the percentage of agreed actions being implemented.

### **Significant Internal Control Issues**

A number of control issues have been identified during the year, and action plans have been put in place to address these. The following weaknesses are considered to be significant:

i) Disaster Recovery

In December 2012, Adur/Worthing (one of our CenSus IT partners) lost some of its ICT systems for an extended period of time. An independent review was commissioned and a 'lessons learnt' report was issued detailing a number of shortcomings in the control environment. In particular, the report highlighted the need for an inventory of hardware components (together with a replacement programme), and the need to develop a robust disaster recovery plan for IT within the CenSus Partnership. An 'interim' Head of CenSus IT has been appointed to drive forward an improvement plan, and it is anticipated that a disaster recovery plan will be in place by the end of the year.

ii) Operational Services

Security controls at the Hop Oast Depot are in need of urgent improvement, which was highlighted following the theft of a substantial amount of fuel in December 2012. Internal Audit undertook a review and has made a number of recommendations for improvement. Before proceeding with the implementation of the audit recommendations, it has been agreed that a security consultant from Zurich (the Council's insurers) will visit the site to provide some specific advice for achieving a cost effective solution. A new fuel tank is currently being procured (which has enhanced security features), and will replace the existing tank which does not meet modern day environmental standards. In the meantime, the Council's vehicle fleet will continue to use the local service station until new security arrangements are in place.

iii) Information Security.

During 2012/13, Internal Audit was asked to undertake a special investigation into information security, and an action plan has been agreed for implementation.

A suite of Information Security Policies has been written, and work is now underway to write procedures which will underpin these policies. A programme of training is also underway, and it is anticipated that further significant progress will be made during 2013/14.

iv) Development Management

We have experienced delays in processing major planning applications in a timely manner. We have actively taken steps to rectify the processing issues and processing times have improved in 2013/14.

v) Health and Safety.

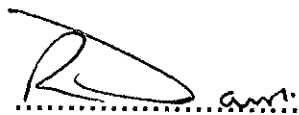
A comprehensive review of Health and Safety policy was undertaken in December 2011 and a report was issued which contained a number of recommendations for improvement. A prioritised action plan was developed to help the Council to work

towards an efficient and compliant corporate Health & Safety Management system by the end of December 2013. More than 50% of the action plan has been achieved, and a new Health and Safety Officer is now in post to address the outstanding items.

### **Certification**

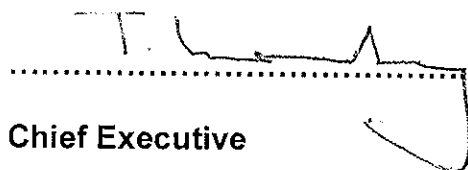
It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council.

### **Signed**



.....

**Leader of the Council**



.....

**Chief Executive**

**on behalf of the Members and senior officers of the Council.**



## ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2012/13

No.	Key Risk Identified	Actions	Responsible Officer	Action by Date	Outcomes
1.	<u>Council's Constitution</u>  Financial loss / corporate fraud due to out-of-date Financial Regulations.	Update the Council's Financial Regulations and Contract Standing Orders.	Director of Corporate Resources.	30 <sup>th</sup> September 2012	The Council's amended Financial Regulations and Contract Standing Orders were approved by Full Council on 19 <sup>th</sup> December 2012.
2.	<u>Business Continuity</u>  Disruption to service delivery in the event of a disaster.	Complete the development of a business continuity plan for the Council.	Director of Community Services.	31 <sup>st</sup> October 2012	A corporate business continuity plan has been produced and was validated in an exercise in February 2013.
3.	<u>Information Security</u>  Significant data breach.	Development of information security policies for CenSus and training for staff & Members.	Director of Corporate Resources.	30 <sup>th</sup> September 2012  (Implementation programme will be ongoing)	A suite of Information Security Policies has been completed, and procedures to underpin the policies are currently being developed. A programme of training is being rolled out to officers and Members.
4.	<u>Health &amp; Safety</u>  Non-compliance with legislation.	Implementation of Consultant's recommendations which have been captured into a prioritised action plan. All actions are due to be implemented by the end of December 2013.	Chief Executive.	31 <sup>st</sup> December 2013	Good progress has been made. Approximately 50% of the Consultant's recommendations have been implemented. The Council has also appointed a full time officer as the Council's competent health & safety adviser.

## ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2013/14

No.	Key Risk Identified	Actions	Responsible Officer	Action by Date
1.	Disaster Recovery	A disaster recovery plan will be built and tested for CenSus ICT.	Director of Corporate Resources	31 <sup>st</sup> December 2013
2.	Operational Services	Security controls at the Hop Oast Depot will be substantially improved.	Director of Community Services	31 <sup>st</sup> August 2013
3.	Information Security	Procedures will be written to underpin information security policies, and a programme of training will be rolled out to Members and officers.	Director of Corporate Resources	31 <sup>st</sup> December 2014
4.	Health and Safety	All outstanding actions from the consultant's report will be implemented by the end of the calendar year.	Chief Executive	31 <sup>st</sup> December 2013

## Report to Accounts, Audit and Governance Committee

Date of meeting 25 September 2013

By the Director of Corporate Resources

### INFORMATION REPORT

Not exempt



Horsham  
District  
Council

## Treasury Management Activity and Prudential Indicators 2012/13

### Executive Summary

This report covers treasury activity and prudential indicators for 2012/13. During 2012/13 the Council complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, was not breached.

At 31 March 2013, the Council's external debt was £4m (£4m at 31/3/12) and its investments totalled £14.9m (£8.9m at 31/3/12) including call accounts and money market funds.

During 2012/13 the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.341m (£0.313m 2011/12) was earned on investments, an average return of 1.8% (1.8% 2011/12).

The report also reviews the economic background to Treasury Management activity in an Appendix.

### Recommendations

The Committee is recommended to:

- i) Note the treasury management stewardship report for 2012/13
- ii) Note the actual prudential indicators for 2012/13

### Reasons for Recommendations

- i) The annual treasury report is a requirement of the Council's reporting procedures
- ii) This report also covers the actual Prudential Indicators for 2012/13 in accordance with the requirements of the relevant CIPFA Codes of Practice.

### Background Papers

"Prudential Code for Capital Finance and Treasury Management Strategy 2012-13" - Accounts and Audit Committee 14<sup>th</sup> December 2011

**Consultation:** ArlingClose. Council's Treasury management advisers

**Wards affected:** All

**Contact:** Julian Olszowka Ext. 5310

## Background Information

### 1 Introduction

#### The purpose of this report

- 1.1 This report covers treasury management activity and prudential indicators for 2012/13. It meets the requirements of the 2011 editions of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003

#### Background

- 1.1 In line with the CIPFA Prudential Code for Capital Finance in Local Authorities the Council adopts prudential indicators for each financial year and reports on performance relative to those indicators. This requirement is designed to demonstrate that capital spending is prudent, affordable and sustainable and that treasury practices are low risk. The original indicators for 2012/13 together with Treasury Management Strategy 2012/13 were agreed by Council on 22<sup>nd</sup> February 2012 having been approved by this Committee on 14<sup>th</sup> December 2011.

### 2 The Council's Capital Expenditure and Financing 2012/13

- 2.1 This is one of the required prudential indicators and shows total capital expenditure for the year and how this was financed. The estimates will include revisions to the original indicators approved by the Council on 13<sup>th</sup> February 2013 as a part of budget report.

2012/13	Actual £000	Estimate £000
Total capital expenditure	1,861	3,496
Resourced by:		
Capital receipts	(1,210)	(1,700)
Capital grants and contributions	( 549)	( 506)
Revenue reserves	( 102)	(1,290)
<b>Unfinanced capital expenditure (additional need to borrow)</b>	0	0

- 2.2 The capital spend was under budget. The detail of variances has been reported to the last meeting of this Committee. This results in a reduced need for financing notably from revenue reserves compared to estimates.

### 3 The Council's Overall Borrowing Need

- 3.1 The Council's underlying need to borrow is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's need to borrow. It represents the accumulated net capital expenditure which has not been financed by revenue or other resources. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

## Agenda Item 9

- 3.2 The Council is required to make an annual revenue charge, the Minimum Revenue Provision (MRP), to reduce the CFR – effectively a repayment of the borrowing need. The Council's 2012/13 MRP Policy (as required by CLG Guidance) was approved on 22<sup>nd</sup> February 2012 as a part of the 2012/13 Budget report.
- 3.3 The Council's CFR for the year is shown below, and represents a key prudential indicator because it is a measure of the Council's underlying indebtedness. As there was no unfinanced capital spend in 2012/13, the only movement in the CFR is a reduction as the minimum revenue provision (MRP) is made from revenue.

<b>Capital Financing Requirement</b>	<b>Actual £000</b>	<b>Estimate £000</b>
Opening balance 1 April 2012	12,463	12,464
plus unfinanced capital expenditure	0	0
less Minimum Revenue Provision	(751)	(755)
<b>Closing balance 31 March 2013</b>	<b>11,712</b>	<b>11,709</b>

## 4. Treasury Position at 31 March 2013

- 4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Director of Corporate Resources can manage the Council's actual borrowing position by either:
- borrowing to the level of the CFR; or
  - choosing to utilise some temporary cash flow funds instead of borrowing (under-borrowing); or
  - borrowing for future increases of CFR (in advance of need).
- 4.2 The Council is under-borrowed as its only borrowing is £4m. It also holds investments and the summary treasury position held on the 31 March 2013 compared with the previous year is shown below.

<b>Treasury position</b>	<b>31 March 2012</b>		<b>31 March 2013</b>	
	<b>Principal £m</b>	<b>Average Rate</b>	<b>Principal £m</b>	<b>Average Rate</b>
Fixed Interest Rate Debt	4.0	3.4%	4.0	3.4%
Investments	(8.9)	2.2%	(14.9)	1.3%
<b>Net borrowing position</b>	<b>(4.9)</b>		<b>(10.9)</b>	

- 4.3 The decrease in rate reflects the loss of a long term high interest loan to another Local Authority and the general depression in investment rates.

## 5 Prudential Indicators and Compliance Issues

- 5.1 **Net Borrowing and the CFR** - In order to ensure that borrowing levels are prudent, over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not therefore, except in the short term, exceed the CFR for 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15. As net borrowing is negative because investments exceed debt and the CFR will remain positive including changes in the next two years the Council has complied with this prudential indicator.

## Agenda Item 9

- 5.2 The **Authorised Limit** is the “Affordable Borrowing Limit” required by s3 of the Local Government Act 2003. The Council set the Authorised Limit as £15m for 2012/13 and did not amend it during that year. The table below demonstrates that during 2012/13 the Council has maintained gross borrowing within its Authorised Limit.
- 5.3 The **Operational Boundary** is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached. Gross borrowing was at £4m for the whole year which was the level set for this indicator.

- 5.4 **Actual financing costs as a proportion of net revenue stream** - This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The actual indicator was within the estimate mainly due to interest income exceeding expectation as shown in the summary table below.

	2012/13
Authorised Limit	£15.0m
Operational Boundary	£4.0m
Maximum gross borrowing position in the year	£4.0m
Minimum gross borrowing position in the year	£4.0m
Financing costs as a proportion of net revenue stream	Actual 3.9% Estimate 5%

- 5.5 **Upper limits on variable and fixed rate exposure** – This indicator identifies a maximum limit for variable and fixed interest rates. The table below shows the estimate and actual maxima in 2012/13.

	Limit	Actual	Met?
Upper limit on fixed rate exposure	£15m	£4m	✓
Upper limit on variable rate exposure	£0m	-£14.9m	✓

- 5.6 **Maturity Structures Of Borrowing** - These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing. As the Council only has one such debt and has set the percentage range to allow it freedom to refinance the debt there is no danger of not meeting this indicator. For completeness the table below shows the position in 2012/13 estimates and current position.

Maximum percentage of borrowing in each age category	2012/13 Original Indicator	Actual Position
<b>Maturity Structure of fixed borrowing</b>		
Under 12 months	100%	0%
12 months to 2 years	100%	0%
2 years to 5 years	100%	0%
5 years to 10 years	100%	100%
10 years and above	100%	0%

## Agenda Item 9

- 5.7 **Total Principal Funds Invested** – This limit ensures liquid funds are maintained. The actual position was within the indicator as there were no long term investments.

2012/13	Original Indicator	Actual Position
Maximum principal sums invested > 364 days	£3m	£0m

## 6 **Economic Background for 2012/13**

- 6.1 The Council has engaged ArlingClose Ltd to advise on various aspects of Treasury Management. As a part of that advice information on the economic background to treasury activities is provided and this is in the appendix to this report.

## 7. **Debt management activity during 2012/13**

- 7.1 No new borrowing was entered into, so the Council's only loan was £4.0m from Public Works Loan Board (PWLb) borrowed on 23rd April 2009 for 10 years at 3.38%. A lower rate of interest called the Certainty Rate was introduced by the PWLB in November 2012, allowing the authority to borrow at a reduction of 20bps on the Standard Rate.
- 7.2 As the CFR shown above is almost £12m the Council is using its internal resources in lieu of borrowing as this is judged to be the most cost effective means of funding capital expenditure. This has, for the time being, lowered overall treasury risk by reducing both external debt and temporary investments. Whilst this is still the position, it may not be sustainable over the medium term.

## 8 **Investment activity in 2012/13**

- 8.1 The Council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return. The majority of its surplus cash is therefore held as short-term investments with the UK Government, local authorities, and highly credit-rated banks, building societies and pooled funds. The Council's Treasury Management activity fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code of Practice and the CLG Investment guidance. This requires the Council to approve an investment strategy before the start of each financial year and all investment activity during the year conformed to this strategy.
- 8.2 The Council's longer term cash balances comprise primarily revenue and capital resources. The Council's core cash resources are shown in the table below. The Council has not borrowed up to its borrowing need so this reduces the amount of funds available to be invested significantly as effectively the Council is borrowing internally by approximately £7.7m.

Balance Sheet Resources	31 March 2012 £000	31 March 2013 £000
Revenue reserves	12,752	14,220
Other reserves and provisions	1,131	964
Usable capital receipts	0	923
Unapplied capital contributions	2,526	6,329
Working capital	379	-426
Total	16,788	22,010

- 8.3 **Yield** - The investment income budget for the year 2012/13 was £0.189m. The actual interest received was £0.341m due both to cash balances being considerably above budget and returns also being above those budgeted. An overall return of 1.8% was achieved from the investments managed in-house. The benchmark, which is the average LIBID 7 day rate, was 0.49%. Since the financial crisis in 2008 the LIBID rate has remained tied to bank rate while the Council has managed to obtain rates higher than bank rate so the worth of comparing to the benchmark is reduced.
- 8.4 **Security** – A benchmark is used as a way of expressing the credit risk of the whole portfolio of counterparties that the Council invests with. The Council has adopted a benchmark of an equivalent credit rating of A against which the portfolio was assessed at the end of each month
- 8.5 The portfolio average credit rating was above the benchmark for three months, matched it for seven months and dipped below to A- in two months - September 2012 and February 2013. The two occasions when the indicator dipped under the benchmark were at the end of the month when the actual cash flows meant the money had to be taken out of Money Market Funds which are highly rated and liquid as the lower rated investments could not be returned in the short term. In both cases the indicator returned to benchmark A as Council Tax funds flowed in on the first day of the month.
- 8.6 **Liquidity benchmark** – The Council needs to ensure it has a sufficient level of liquidity so it has funds available when necessary. To ensure liquidity the Council maintained a bank overdraft facility of £0.5m. The Council also set a benchmark for the Weighted Average Life of investments of 0.5 years. This maintains the liquidity of investments by limiting how long funds are tied into investments. The actual weighted annual life in the year peaked at 0.4 years averaging 0.3 years.

## 9 Outcome of consultations

- 9.1 The views of the Council's treasury management consultants, ArlingClose Ltd, have been incorporated in all aspects of the above.

## 10 Staffing and Financial Consequences

- 10.1 This report provides information only; no staffing or financial resources are required as a result of it.

**Appendix****Economic Background in 2012/13**

The global outlook stabilised mainly due to central banks maintaining low interest rates and expansionary monetary policy for an extended period. Equity market assets recovered sharply with the FTSE 100 registering a 9.1% increase over the year. This was despite economic growth in G-7 nations being either muted or disappointing.

In the UK the economy shrank in the first, second and fourth quarters of calendar 2012. It was the impressive 0.9% growth in the third quarter, aided by the summer Olympic Games, which allowed growth to register 0.2% over the calendar year 2012. The fall in the value of sterling did not boost net trade as had been expected, but did raise the price of imports, especially low margin goods such as food and energy. Avoiding a 'triple-dip' recession became contingent on upbeat services sector surveys translating into sufficient economic activity to overhaul contractions in the struggling manufacturing and construction sectors.

Household financial conditions and purchasing power were constrained as wage growth remained subdued at 1.2% and was outstripped by inflation. Annual CPI dipped below 3%, falling to 2.4% in June before ticking up to 2.8% in February 2013. Higher food and energy prices and higher transport costs were some of the principal contributors to inflation remaining above the Bank of England's 2% CPI target.

The lack of growth and the fall in inflation persuaded the Bank of England to maintain the Bank Rate at 0.5% and also sanction additional £50 billion asset purchases (QE) in July, taking total QE to £375 billion. The possibility of a rate cut was discussed at some of Bank's Monetary Policy Committee meetings, but clearly rejected. In the March Budget the Bank's policy was revised to include the 2% CPI inflation remit alongside the flexibility to commit to intermediate targets.

The resilience of the labour market, with the ILO unemployment rate falling to 7.8%, was the main surprise given the challenging economic backdrop. Many of the gains in employment were through an increase in self-employment and part time working.

The Chancellor largely stuck to his fiscal plans with the austerity drive extending into 2018. In March the Office for Budgetary Responsibility (OBR) halved its forecast growth in 2013 to 0.6% which then resulted in the lowering of the forecast for tax revenues and an increase in the budget deficit. The government is now expected to borrow an additional £146bn and sees gross debt rising above 100% of GDP by 2015-16. The fall in debt as a percentage of GDP, which the coalition had targeted for 2015-16, was pushed two years beyond this horizon. With the national debt metrics out of kilter with a triple-A rating, it was not surprising that the UK's sovereign rating was downgraded by Moody's to Aa1. The AAA status was maintained by Fitch and S&P, albeit with a Rating Watch Negative and with a Negative Outlook respectively.

The government's Funding for Lending (FLS) initiative commenced in August which gave banks access to cheaper funding on the basis that it would then result in them passing this advantage to the wider economy. There was an improvement in the flow of credit to mortgagees, but was still below expectation for SMEs.

## Agenda Item 9

The big four banks in the UK – Barclays, RBS, Lloyds and HSBC – and several other global institutions including JP Morgan, Citibank, Rabobank, UBS, Credit Suisse and Deutsche came under investigation in the Libor rigging scandal which led to fines by and settlements with UK and US regulators. Banks' share prices recovered after the initial setback when the news first hit the headlines.

**Europe:** The Euro region suffered a further period of stress when Italian and Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. Markets were becalmed after the ECB's declaration that it would do whatever it takes to stabilise the Eurozone and the central bank's announcement in September of its Outright Monetary Transactions (OMT) facility, buying time for the necessary fiscal adjustments required. Neither the Italian elections which resulted in political gridlock nor the poorly-managed bailout of Cyprus which necessitated 'bailing-in' non-guaranteed depositors proved sufficient for a market downturn. Growth was hindered by the rebalancing processes under way in Euroland economies, most of which contracted in Q4 2012.

**US:** The US Federal Reserve extended quantitative easing through 'Operation Twist', in which it buys longer-dated bonds with the proceeds of shorter-dated US Treasuries. The Federal Reserve shifted policy to focus on the jobless rate with a pledge to keep rates low until unemployment falls below 6.5%. The country's extended fiscal and debt ceiling negotiations remained unresolved.

**Gilt Yields and Money Market Rates:** Gilt yields ended the year lower than the start in April. By September the 2-year gilt yield had fallen to 0.06%, raising the prospect that short-dated yields could turn negative. 10-year yields fell by nearly 0.5% ending the year at 1.72%. The reduction was less pronounced at the longer end; 30-year yields ended the year at 3.11%, around 25bp lower than in April. Despite the likelihood the DMO would revise up its gilt issuance for 2012/13, there were several gilt-supportive factors: the Bank of England's continued purchases of gilts under an extended QE programme; purchases by banks, insurance companies and pension funds driven by capital requirements and the preference for safe harbour government bonds.

One direct consequence of the Funding for Lending Scheme was the sharp drop in rates at which banks borrowed from local government. 3-month, 6-month and 12-month Libid rates which were 1%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

## Report to Accounts, Audit and Governance Committee

25<sup>th</sup> September 2013

By the Chief Internal Auditor

### INFORMATION REPORT

Not exempt



## Internal Audit – Quarterly Update Report

### Executive Summary

This report summarises the work completed by the Internal Audit Section since June 2013.

### Recommendations

The Committee is recommended to:

- i) Note the summary of audit and project work undertaken since June 2013.

### Reasons for Recommendations

- i) To comply with the requirements set out in the new Public Sector Internal Audit Standards 2013.
- ii) The Accounts, Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

<b>Background Papers:</b>	Public Sector Internal Audit Standards & Internal Audit Reports
<b>Consultation:</b>	N/A
<b>Wards affected:</b>	All
<b>Contact:</b>	Paul Miller, Chief Internal Auditor.

## **Background Information**

### **1. Introduction**

#### **The Purpose of this Report**

- 1.1 The purpose of this report is to provide a quarterly summary of work undertaken by the Internal Audit Team since June 2013, and to provide an update on progress against the internal audit plan.

### **2. Statutory and Policy Background**

#### **Statutory Background**

- 2.1 The Accounts and Audit (England) Regulations 2011 state that “a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.” This responsibility is discharged through the Council’s Internal Audit Section.

#### **Relevant Government Policy / Professional Standards**

- 2.2 Internal Audit follows the new mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.

#### **Relevant Council Policy**

- 2.3 Internal Audit is conducted in accordance with the Council’s Constitution. Financial Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the work of internal audit, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment.

### **3. Summary of Audit Findings**

- 3.1 Fuel Cards

#### **OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE**

There is basically a sound system of control over the administration of Shell fuel cards. However, some control weaknesses were identified. Of particular concern was that there was no reconciliation of fuel card receipts to recorded transactions on invoices received from Shell to ensure that all claims by Shell are valid. It has been agreed that, with effect from May 2013, all fuel receipts will be recorded in a spreadsheet by an officer at Hop Oast Depot. This spreadsheet will be used to reconcile the total number of transactions and fuel volumes (and/or invoice amount) against Shell invoices.

## Agenda Item 10

At the commencement of the audit, there was no procedural guidance for the “overall” fuel card system. Internal audit documented the procedure during the course of the audit, and it was agreed that this would be adopted.

### 3.2 Insurance

#### OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE**

There is a sound system of control over the administration of insurance for Horsham D.C. Insurance arrangements with Zurich (the Council’s insurers) are renewed annually and a service level agreement (SLA) is in place to cover the administration of insurance by Adur & Worthing D.C (AWDC) on behalf of Horsham D.C (HDC). Quarterly meetings are held to monitor the arrangements. Claims are dealt with satisfactorily and comprehensive records are maintained.

Two control weaknesses were identified concerning the SLA between HDC and AWDC:

- The SLA came into force in June 2012 but has never been formally signed. It has been agreed that the SLA will be signed by both parties.
- The HDC Insurance Policy and Procedures do not cover the current SLA arrangements with ADWC. It has been agreed that the procedures will be updated and the partnership arrangements will be reflected in the revised document.

### 3.3 Community Link Alarms

#### OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE**

There is generally a sound system of control over the management of community link alarms. A few control weaknesses were identified concerning the lack of written procedures, the lack of a signed agreement for the call monitoring service and the absence of checks in terms of invoices received from the Chichester Community Careline Monitoring Service. Appropriate remedial action has been agreed.

### 3.4 Land Charges

#### OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE**

There is basically a sound system of control over the administration of Land Charges. However, some control weaknesses were identified. In particular, there was no reconciliation carried out between the Council’s financial systems (Total) and the Land Charges system and no review of the NLIS (National Land Information System) hub statements to ensure that all money due has been received. It has been agreed that reconciliations between Total and the Land Charges system will be undertaken quarterly in future, and NLIS hub statements will be checked monthly to ensure that they are correct

### 4. Audit Plan ~ Progress Update

4.1 The audit plan for 2013/14 has been reviewed. Out of a total of 30 audits, only three had been completed as at 29<sup>th</sup> August 2013. There are a number of reasons for this:

- (i) Temporary shortfall in resources due to unforeseen circumstances.
- (ii) The need to review the process for fuel cards.
- (iii) A number of audits have been commenced but have been subsequently postponed for different reasons.

In order to respond to new risk areas identified since the annual audit plan was agreed, a number of changes have been made in consultation with the Director of Corporate Resources. The changes are as follows:

#### **Audits removed from the plan:**

- |                                  |         |
|----------------------------------|---------|
| • Performance Management         | 15 days |
| • Horsham Market                 | 8 days  |
| • Events                         | 8 days  |
| • Staff Resources (dependencies) | 11 days |

<i>Total</i>	<u>42 Days</u>
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#### **Audits added to the Internal Audit Plan**

- |                            |         |
|----------------------------|---------|
| • Fuel Cards               | 10 days |
| • Charging for Green Waste | 16 days |
| • IT Risk Assessment       | 11 days |

<i>Total</i>	<u>37 days</u>
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On a positive note, in addition to the three audits which have been completed (from the original audit plan for 2013/14), we have issued a report on fuel cards and audits of ICT Hardware, Car Parks and Office Security are nearing completion. In addition, the Principal Internal Auditor has reviewed the NFI data matching reports, and investigative work arising from the review has now been completed. Lack of focus on this area in previous years has been subject to adverse comments by the Council's external auditors and therefore this area has been given a much high priority in 2013/14.

Progress against the audit plan will be tightly monitored over the next few months, and a progress update will be provided in early December.

## **5. Project Work**

### **5.1 Risk Management**

In recent months, the Chief Internal Auditor has developed a 5x5 risk matrix which will replace the Council's 3x3 matrix. The 3x3 matrix was introduced in 2008 when risk management was originally rolled out, but as previously reported, most authorities are now using a more sophisticated model.

A number of risk models used by other local authorities have been examined, and the best examples have been captured and further developed so that officers and Members at Horsham are able to measure levels of risk in a consistent and structured way.

The new model was discussed at the August meeting of the Operational Risk Management Group, and will be presented to CMT for approval. Once approved, the Council's Risk Management Strategy will be updated and the new model will be applied to the Corporate Risk Register. It is intended that an updated Risk Management Strategy and new Corporate Risk Register will be presented to the Accounts, Audit and Governance Committee at the December meeting.

### **5.2 Data Matching**

In conjunction with our audit of Hackney Carriage and Private Hire Licences, Internal Audit undertook a data matching exercise between the Diamond application system and Academy (the Revenues and Benefits system). The purpose of the exercise was to ascertain whether any licensed taxi drivers were fraudulently claiming benefit for which they were not entitled.

A number of data matches were referred to the CenSus Benefits Fraud Team for investigation, and two licensed taxi drivers were subsequently interviewed under caution. In both cases, it was proved that changes in circumstances had not been disclosed to the Council resulting in overpayments in benefit. The overpayments amounted to £2,073 and £4,634 respectively. Administrative penalties totalling £2,459 have been charged in addition to this.

## **6. Next Steps**

6.1 Not applicable.

## **7. Outcome of Consultations**

7.1 Not applicable.

## **8. Other Courses of Action Considered but Rejected**

8.1 Not applicable

## **9. Staffing Consequences**

9.1 There are no direct staff consequences.

**10. Financial Consequences**

10.1 There are no financial consequences.


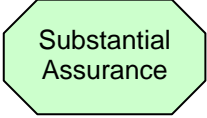

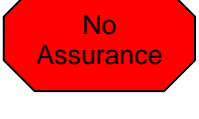
## **Appendix 1**

### **Consequences of the Proposed Action**

Consequences of the proposed action on:	
Risks	All internal audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit opinion (see Appendix 2 for definitions).
Risk Assessment attached Yes/No	No
Crime and Disorder	This report has no effect on Crime & Disorder issues.
Equality and Diversity/ Human Rights	The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values.
Equalities Impact Assessment attached Yes/No/Not relevant	Not relevant.
Sustainability	This report has no effect on sustainability.

## Appendix 2

### Categorisation of Audit Opinions

 <p>Full Assurance</p>	<p><b>System of Control:</b> There is a sound system of control in place which minimises risk to the Council; and</p> <p><b>Compliance with Controls:</b> Audit testing identified that all expected controls are being consistently applied.</p>
 <p>Substantial Assurance</p>	<p><b>System of Control:</b> Whilst there is basically a sound system of control (i.e. key controls are in place), there are some weaknesses which may place the Council at risk in a few areas; and/or</p> <p><b>Compliance with Controls:</b> Audit testing identified a lack of compliance with controls in a few areas.</p>
 <p>Moderate Assurance</p>	<p><b>System of Control:</b> There are some weaknesses in the system of control (i.e. the absence of two or more key controls) which is placing the Council at risk in a number of areas; and/or</p> <p><b>Compliance with Controls:</b> Audit testing identified a lack of compliance with two or more key controls.</p>
 <p>No Assurance</p>	<p><b>System of Control:</b> The system of control is very weak or non-existent, which is placing the Council open to significant risk: and/or</p> <p><b>Compliance with Controls:</b> Audit testing identified a high number of key controls which are not being complied with.</p>

## Report to Accounts, Audit and Governance Committee

25<sup>th</sup> September 2013

By the Director of Corporate Resources

### INFORMATION REPORT

Not exempt



## Risk Management – Quarterly Update Report

### Executive Summary

This report includes an update on the Corporate Risk Register for consideration and provides an update on progress with the quarterly departmental risk register reviews. The report also provides a summary of the main points of discussion from the Operational Risk Management Group meeting which took place on 14<sup>th</sup> August 2013.

### Recommendations

The Committee is recommended to:

- 1) Consider the updated version of the Corporate Risk Register (see Appendix 2).
- 2) Note the main points of discussion at the August 2013 Operational Risk Management Group meeting.
- 3) Note the progress which has been made with the departmental risk registers.

### Reasons for Recommendations

As part of good governance, it is important that these documents are considered by Members.

<b>Background Papers:</b>	Management Information obtained from Covalent and the Minutes of the Operational Risk Management Group Meeting
<b>Consultation:</b>	The Corporate Management Team and Chief Internal Auditor
<b>Wards affected:</b>	All
<b>Contact:</b>	Paul Miller, Ext 5319

## **Background Information**

### **1. Introduction**

#### **The Purpose of this Report**

- 1.1 The Accounts, Audit and Governance Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers. Feedback from the Operational Risk Management Group meeting held in August 2013 is also provided for information.

### **2. Risk Management Update**

#### **2.1 Corporate Risk Register**

The Corporate Management Team (CMT) has reviewed all outstanding actions on the Corporate Risk Register and comments have been updated to reflect the current position for each risk.

##### **(i) New risks:**

- CRR43 - Under the Infrastructure & Growth Act 2012 the Secretary of State could designate HDC as a poorly performing Council and enable applicants to bypass HDC and apply direct to the Planning Inspectorate.
- CRR44 - Failure to obtain PSN CoCo accreditation leading to disconnection of secure link to PSN systems in turn leading to being unable to process core services (i.e. housing and council tax benefits).

(See Appendix 2 for more details and planned remedial action).

##### **(ii) Removed risks:**

Risk No. CRR30 *"Potential financial loss due to new government initiative for the localisation of business rates"* has been removed from the register as agreed at the June meeting.

##### **(iii) Risks to be removed:**

CMT has recommended that the following risks be removed from the register:

- CRR21 ~ *"Formal Cascade system"* for calling out staff as required to resolve internal incidents. A rota programme is being developed and relevant issues will now be dealt with under the umbrella of the Staff Terms and Conditions review which will be implemented by management.
- CRR31 ~ *"Potential financial loss due to new government initiative to move towards the Universal Credit"*. The risk is minimal at the moment as the government programme has been significantly delayed.

## Agenda Item 11

- CRR39 ~ *“Low morale of workforce and / or withdrawal of goodwill as a result of the terms and conditions review...”* The terms and conditions review has now been concluded, and mitigating control actions have been completed. Staff morale will need to be managed by managers.

### 2.2 Operational Risk Management Group (ORMG)

The Operational Risk Management Group (ORMG) met on 14<sup>th</sup> August, and the main points from the meeting are summarised below:

- The terms of reference of the group were reviewed, and it was agreed that:
  - (i) The ORMG would fulfil a “scrutinise and challenge” role in operational risk management.
  - (ii) The ORMG will review risks recorded on departmental risk registers which have been assessed as “high”.
- Two new and emerging risks were discussed:
  - (i) Commissioning Authority. Different ways of working will result in a change in the Council's risk profile. For example, the introduction of third parties to manage functions and/or partnership arrangements. In particular there is a need to consider data protection issues and how the Council will ensure compliance with Council policies and procedures etc.
  - (ii) The PSN code of connection requirements (which has been added to the Corporate Risk Register).
- The Chief Internal Auditor had, in consultation with a number of senior officers, developed a new 5x5 risk model which was discussed during the meeting. A total of nine categories of impact have been developed, and it is intended that the Corporate Risk register will be re-mapped onto the new 5x5 matrix in October. The Council's risk strategy will then be updated and presented to the Accounts, Audit and Governance Committee meeting in December. It is anticipated that the Departmental Risk Registers will be re-mapped during the first six months of the new financial year.
- The Council's Health and Safety Advisor presented a new Incident Management Policy and Action Guide, and copies were distributed. This document provides guidance on the actions required in the event of a fatal or serious incident. This document will be presented to the Corporate Management Team for formal approval.
- The Council's Insurance Manager provided feedback on claims experience. 33 claims have been received in the current financial year (up to the beginning of August) but there have been no major accidents. Claims received mainly relate to collisions with fixed objects such as walls and fences.

### 2.3 Departmental Risk Registers

A total of 8 out of 20 departmental risk registers had not been completed by the cut-off date. However, this was raised at the Corporate Management Team, and all registers have now been reviewed and updated.

### 3. Next Steps

3.1 Not applicable.

### 4. Outcome of Consultations

4.1 Not applicable.

### 5. Other Courses of Action Considered but Rejected

5.1 Not applicable.

### 6. Staffing Consequences

6.1 There are no direct staff consequences.

### 7. Financial Consequences

7.1 There are no financial consequences.

## **Appendix 1**

### **Consequences of the Proposed Action**

Consequences of the proposed action on:	
Risks	The report provides an update on the Council's corporate risks and how these are being managed by the Corporate Management Team.
Risk Assessment attached ~ No	See Appendix 2 for the latest version of the Council's Corporate Risk Register.
Crime and Disorder	Effective risk management helps to ensure that the Council achieves its objectives within this area.
Equality and Diversity/ Human Rights	Effective risk management helps to ensure that the Council achieves its objectives within this area.
Equalities Impact Assessment attached Yes/No/Not relevant	Not relevant.
Sustainability	This report has no effect on sustainability.

### **Statutory and Policy Background**

Statutory Background	The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2003 (amended 2006): "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of the body's functions and which includes arrangements for the management of risk".
Relevant Government Policy / Professional Standards	Risk management is an essential element of good corporate governance. The CIPFA/SOLACE Framework on Corporate Governance requires councils to establish and maintain a systematic strategy, methodology and processes for managing risk. They must also report publicly on the effectiveness of these arrangements.
Relevant Council Policy	The Council's Risk Management Strategy 2012/15 has been published on the Council's Intranet. The Corporate Risk Register is managed by the Council's Corporate Management Team, and each Head of Service is responsible for managing one or more departmental risk registers. When undertaking major projects, a risk log is maintained which is a requirement of the Council's project management methodology.



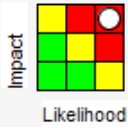

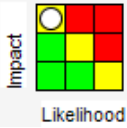


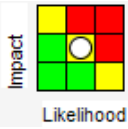

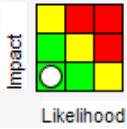

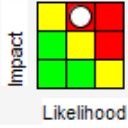

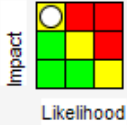


# Corporate Risk Report with Actions Sept 2013 V4

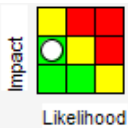

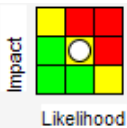
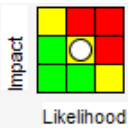

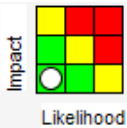


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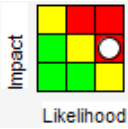

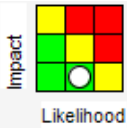


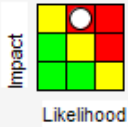

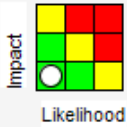



Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR01 Failure to identify appropriate actions to deal with reduced funding.	Job losses, reduced income, capital receipts reduced or not realised, service cuts (non-statutory functions, increased workload (e.g. debt recovery), and possible damage to reputation. Loss of discretionary services impacting on quality of life.	Katharine Eberhart		CRR.01.10 Scope key projects and identify timelines. together with dependencies and critical resource requirements (Ongoing).	CMT			September 2013 Update: See Footnote 1 <sup>1</sup>
				CRR.01.8 Develop & Deliver a new Medium Term Financial Strategy (to Council 19/12/12).	CMT			
				CRR.01.9 Develop and deliver Business Transformation Programme (Ongoing).	CMT			
CRR05 Inadequate "information security"	Financial penalties & damage to reputation.	Peter Dawes		CRR.05.1 Develop an ICT Security Policy (by 30/09/12)	Peter Dawes			September 2013 Update: One Member training session was cancelled. This has been rescheduled for September.
				CRR.05.2 Develop processes & procedures which underpin the IT Security Policy (by 31/12/14, then annual review).	Peter Dawes			
				CRR.05.4 Provide a programme of training on Information Security to all staff (by 31/12/13, then ongoing).	Peter Dawes			
				CRR.05.8 Member training will be provided to ensure the use of HDC e-mail only (or emails received / sent from private email boxes are copied to HDC email box) (by 30/6/13).	Peter Dawes			

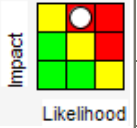

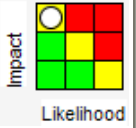





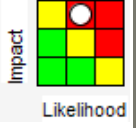

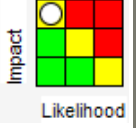
<sup>1</sup> A revised report on the MTFS went to Cabinet in July 2013. A small budget deficit remains to be closed in 2014/15 but subsequent expected grant reductions mean the problem for later years is still significant. Business Transformation programme is proceeding with agreement reached on changes to Terms and Conditions. Further discussion of budget priorities will take place with a series of Budget Challenge meetings involving the Cabinet Member for Resources and Cabinet Members responsible for services arranged for October. A further report on the MTFS is likely to be considered later in the autumn.

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR06 Lack of a tested Business Continuity Plan	Disruption to service, legislative breaches (if critical paperwork lost), loss of income & failure to achieve objectives.	Natalie Brahma-Pearl		CRR.06.1 Develop corporate business continuity plan and regular review (to be completed by 30/11/13).	Trevor Beadle			September 2013 Update: Reciprocal arrangements have been explored with Crawley B.C, but Crawley are unable to deliver what is required. A new action has been added (CRR.06.4) to explore the feasibility of reciprocal arrangements with other authorities.
				CRR.06.2 Develop departmental business continuity plans and regular review (by 30/11/13).	Trevor Beadle			
				CRR.06.4 Explore feasibility of reciprocal arrangements with other authorities	Trevor Beadle			
CRR21 Whilst there is a formal cascade system in place for calling out staff in the event of an emergency, there is no formal arrangement in place for calling out support services such as ICT & Buildings Maintenance staff (31/3/13).	An incident which cannot be resolved causing service interruptions at HDC Offices or other buildings for which we are responsible	Natalie Brahma-Pearl		CRR.21.1 Review Duty Officer and Out of Hours system (by 30/9/13)	Peter Dawes			September 2013 Update: CMT have decided to remove this risk from the Corporate Risk Register. A rota programme is being developed and relevant issues will now be dealt with under the umbrella of the Terms and Conditions review which will be implemented by management.
				CRR.21.2 Review appropriate Role Profiles to ensure that Out of Office cover is addressed (by 30/9/13)	Peter Dawes			
CRR24 Loss of Telephone System due to hardware failure	Failure of business objectives Non compliance with statutory requirements Financial business loss Disruption of service Damage to reputation	Peter Dawes		CRR.24.02 Explore partnership opportunities.	Peter Dawes			September 2013: Contract signed. Project manager appointed and timelines have been established. Discussions are currently in progress on a technical level regarding
				CRR.24.03 Consider acquisition of new system - options report will be produced by December 2012.	Peter Dawes			
				CRR.24.04 Complete installation of new telephone system (by 30/11/13)	Peter Dawes			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
								implementation. Options are being considered in conjunction with the PC rollout.
CRR31 Potential financial loss due to new government initiative to move towards the Universal Credit.	Non compliance with statutory requirements. Financial business loss. Disruption of service. Damage to reputation.	Katharine Eberhart		CRR.31.1 Review Updates - National Guidelines (Ongoing)	Katharine Eberhart			September 2013 Update: CMT have decided to remove this risk from the Corporate Risk Register as the government programme has been significantly delayed.
CRR34 Poor performance and/or decision-making following a reduction in the number of directors, increasing work pressures on Directors, Heads of Service and Line Managers	Failure of business objectives	Tom Crowley		CRR.34.1 Regular 1-2-1's with Directors and Heads of Service (Monthly)	Tom Crowley; Natalie Brahma-Pearl; Katharine Eberhart			September 2013 Update: Following completion of Terms and Conditions Review next major organisational transformation project is the Management Restructure. This will commence this autumn and should be agreed and implemented during the early part of 2014. The exercise will include an examination of the operation and staffing of critical areas of the Council's activities including Development Management and ICT.
				CRR.34.2 Review at CMT (Bi-Monthly)	Tom Crowley, Natalie Brahma-Pearl, Katharine Eberhart			
				CRR.34.3 Review of performance statistics (Monthly)	Tom Crowley, Natalie Brahma-Pearl, Katharine Eberhart			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR37 The challenge of delivering the day job and projects against a background of business transformation & new initiatives increases pressure on staff and stress-related absences	Disruption of service	Tom Crowley		CRR.37.1 Develop Business Transformation Project Plan (30/6/12)	Tom Crowley			September 2013 Update: See comments in CRR34 above.
				CRR.37.2 Member Advisory Group will set clear priorities (31/7/12)	Tom Crowley			
				CRR.37.3 Monitor performance statistics (Monthly)	Tom Crowley			
CRR38 Failure to implement the Community Infrastructure Levy (CIL) Scheme by April 2014, due to delay in preparing the District Planning Framework	Failure of business objectives, substantial financial loss and damage to reputation	Tom Crowley		CRR.38.1 Raise Member awareness of the impact of further delays to the adoption of the District Planning Framework (Ongoing)	Jill Scarfield			September 2013 Update: Draft Strategy agreed for consultation by Council on July 25th. Additional temporary senior resources applied to process. This will enable progress to be made on CIL. In addition the Government has consulted on extending the CIL deadline to April 2015. Anticipated adoption of DPF and CIL scheme Spring 2015.
				CRR.38.2 Explore options available for condensing the CIL policy implementation timescales	Jill Scarfield			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR39 Low morale of workforce and / or withdrawal of goodwill as a result of the terms and conditions review leading to poor performance, reduced level of office cover and reduced willingness to 'go the extra mile' & respond to out of hours emergencies.	Failure of business objectives, non-compliance with statutory requirements, financial business loss, disruption of service & damage to the Council's reputation	Tom Crowley		CRR.39.01 Satisfactory outcomes from negotiations with the Union and timely conclusion of the Ts & Cs.	Tom Crowley			September 2013 Update: Completed following positive ballot and signing of collective agreement. Changes being implemented according to agreed timetable. Management and Unions are committed to work closely together to help build stronger relationships following tensions generated through this process. This risk should be removed from the register.
				CRR.39.02 Regular consultations and meetings	Tom Crowley			
CRR40 The Council loses planning application appeals due to a shortfall in the Five Year Land Supply.	Failure of business objectives Financial business loss Damage to reputation	Tom Crowley		CRR.40.01 Identify five year land supply via the Planning Development Framework (by 30/06/13)	Barbara Childs			September 2013 Update: Publication of draft DPF post July 25th will help to construct defence in these cases. However risk will remain until new DPF is adopted and/or land supply deficit is resolved.
				CRR.40.02 Continue to raise awareness with Members (Ongoing)	Barbara Childs			
CRR41 Increased risk of loss of IT services through unforeseen circumstances due to lack of a tested Disaster Recovery Plan.	Failure of business objectives Non compliance with statutory requirements Financial business loss Disruption of service Damage to reputation	Katharine Eberhart		CRR.41.01 Develop Disaster Recovery Plan for HDC / CenSus (by 30/11/13)	Ian Henderson			September 2013 Update: Work is progressing. The implementation date for control action CRR.41.01 has been amended from 30/9/13 to 31/11/13.
				CRR.41.02 Build Disaster Recovery Plan (by 31/12/13)	Ian Henderson			
				CRR.41.03 Test Disaster Recovery Plan (by 30/03/14)	Ian Henderson			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR43 Under the Infrastructure & Growth Act 2012 the Secretary of State could designate HDC as a poorly performing Council and enable applicants to bypass HDC and apply direct to the Planning Inspectorate.	Failure of business objectives, non compliance with statutory requirements, Financial business loss and damage to reputation.	Tom Crowley		CRR.43.1 Introduce new P.I. for major planning applications, to include extension of time (by 30/9/13).	Rod Brown			September 2013 Update: Improvement Plan prepared. Interim Officer also feeding into Business Improvement Working Group Review. Updates will be provided to Members on a regular basis.
				CRR.43.2 Regular monitoring of new P.I. (Ongoing)	Rod Brown			
				CRR.43.3 Initiate process to secure agreement to extend determination period when necessary	Rod Brown			
				CRR.43.4 Appoint an Interim Development Management Improvement Manager	Tom Crowley			
				CRR.43.5 Prepare improvement plan	Tom Crowley			
				CRR.43.6 Implement improvement plan (by April 2014)	Tom Crowley			
CRR44 Failure to obtain PSN CoCo accreditation leading to disconnection of secure link to PSN systems in turn leading to being unable to process core services.	Failure of business objectives, non compliance with statutory requirements, financial business loss, disruption of service & damage to reputation.	Katharine Eberhart		CRR.44.1 Take action to deal with high level vulnerabilities. Reliant 3rd Parties.	Ian Henderson			September 2013 Update: PSN resubmission for accreditation will take place 9/9/13.