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Audit Committee

Thursday, 12th July, 2018 at 5.30 pm
Cowdray Room, Parkside, Chart Way, Horsham

Councillors:

John Chidlow
Paul Clarke
Brian Donnelly
Tim Lloyd

Paul Marshall
Godfrey Newman
Stuart Ritchie

You are summoned to the meeting to transact the following business

Glen Chipp
Chief Executive

Agenda

| | Page No. |
|--|----------|
| 1. Election of Chairman | |
| 2. Apologies for absence | |
| 3. Appointment of Vice-Chairman | |
| 4. To approve the time of meetings of the Committee for the ensuing year | |
| 5. Minutes | 3 - 8 |
| <i>To approve as correct the minutes of the meeting held on 11th April 2018 (Note: If any Member wishes to propose an amendment to the minutes they should submit this in writing to committeeservices@horsham.gov.uk at least 24 hours before the meeting. Where applicable, the audio recording of the meeting will be checked to ensure the accuracy of the proposed amendment.)</i> | |
| 6. Declarations of Members' Interests | |
| To receive any declarations of interest from Members of the Committee | |
| 7. Announcements | |
| To receive any announcements from the Chairman of the Committee or the Chief Executive | |

| | | |
|-----|---|-----------|
| 8. | Audit results report To receive the Audit Results Report for the year ending 31st March 2018 – to be presented by the External Auditor | 9 - 56 |
| 9. | Letter of representation To receive and approve the Director of Corporate Resources' letter of representation to the External Auditor | 57 - 60 |
| 10. | Annual Governance Statement 2017/18 To receive the Annual Governance Statement for 2017/18 | 61 - 78 |
| 11. | Statement of Accounts 2017/18 To receive and approve the statement of accounts for 2017/18 | 79 - 134 |
| 12. | Treasury Management Activity and Prudential Indicators 2017/18 To receive the report of the Director of Corporate Resources | 135 - 144 |
| 13. | Risk Management - Quarterly Update To receive the quarterly report of the Director of Corporate Resources on risk management | 145 - 156 |
| 14. | Annual Internal Audit Report and Opinion To receive the report of the Chief Internal Auditor | 157 - 170 |
| 15. | Independent External Assessment of Internal Audit To receive the report of the Chief Internal Auditor | 171 - 190 |
| 16. | Urgent Business 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 To consider the following exempt or confidential information: | |
| 17. | Internal Audit - Quarterly Update on Audit Follow-ups This item involves the likely disclosure of exempt information, as defined in Paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972 (information relating to the financial and business affairs of any particular person (including the Authority holding that information)) | 191 - 196 |

Audit Committee
11 APRIL 2018

Present: Councillors: Stuart Ritchie (Chairman), Paul Marshall (Vice-Chairman), Brian Donnelly and Tim Lloyd

Apologies: Councillors: John Chidlow, Adrian Lee and Godfrey Newman

AAG/83 **MINUTES**

The minutes of the meeting held on 13 December 2017 were approved as a correct record and signed by the Chairman.

AAG/84 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

AAG/85 **ANNOUNCEMENTS**

The Chairman and Vice Chairman attended a CIPFA training course on audit committees in January 2018. They were pleased to find that Horsham's Audit Committee seemed to be operating on a satisfactory level.

The Chairman announced that the basic implementation of the new Finance system seemed to have been relatively successful and that year-end closedown was currently on track. The Head of Finance confirmed that functionality improvements to the Finance system will continue to be implemented.

Following a meeting between the Chairman and the new Chief Executive it was agreed that the Chief Executive would attend one meeting of the Audit Committee every 12 months beginning July 2018.

AAG/86 **TO AGREE THE DATES OF MEETINGS IN 2018/19 AS FOLLOWS:**

The proposed dates of future Audit Committee meetings were agreed by members.

AAG/87 **APPOINTMENT OF EXTERNAL AUDITORS**

Members noted the previous appointment of external auditors.

In line with the delegation by Council, Public Sector Audit Appointment (PSAA) have appointed Ernst and Young as the external auditors of the Council's accounts from 2018/19 for 5 years.

AAG/88 **AUDIT PROGRESS REPORT - MARCH 2018**

The External Auditor summarised the current progress of the Audit 2017/18.

The Audit Plan had been amended to include an additional 'other risk', in respect of the earlier deadline for production of the accounts. This has been included as a standard risk in all the external auditor's local government audit plans. The formal change to a fully substantial approach to the audit was also confirmed.

As part of the interim audit, work had been carried out on the valuation of the Forum. Some issues had been identified in this audit and were now being discussed with officers and Wilks, Head and Eve LLP, the Council's valuers.

An audit had been carried out of the change to the Council's financial management system. As the change involved additional work outside the scope of the normal audit there will be an additional fee for this work, which is being discussed with officers.

Three Value for Money areas of focus had also been carried out for the Broadbridge Heath Leisure Centre; Changes to waste, recycling and cleansing fleet and staffing; and Hop Oast Depot Redevelopment. No significant risks had been identified. This additional work was outside the scope of the normal audit and there will be an additional fee for this work, which is being discussed with officers.

Any changes to the audit fee are subject to review and determination by PSAA.

AAG/89 **CERTIFICATION OF CLAIMS AND RETURNS 2016-17**

The External Auditor presented Members with the Certification of Claims and Returns 2016/17.

It was reported that fewer errors had occurred than in previous years and that the consequences of the errors found were substantially lower.

AAG/90 **DRAFT ANNUAL GOVERNANCE STATEMENT 2017/18**

The Director of Corporate Resources presented the draft Annual Governance Statement for 2017/18 to Members. The final document will be presented to the July meeting for formal approval.

The Areas for Improvement as set out in Appendix E would be included in future appraisals within the specified departments.

RESOLVED

That the Draft Annual Governance Statement 2017/18 was noted by the Committee

REASON

As part of good governance, it is important that the Annual Governance Statement is approved by the Audit Committee

AAG/91 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Corporate Resources presented the Risk Management Quarterly Update.

The greatest risk was reported to be that funding from Government would be less generous than assumed in the MTFS from 2020 onwards. An updated MTFS would be brought back to Members as soon as more information is available.

Another substantial risk was the dissolution of the CenSus partnership, the cost of exiting this revenues and benefits agreement may be high.

It was agreed that a new risk be added to the Risk Register relating to the Director of Planning, Economic Development & Property leaving the Council.

RESOLVED

That the report be noted by the committee

REASON

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

AAG/92 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Chief Internal Auditor summarised the work completed by the Internal Audit Section since December 2017.

Four audits had been completed since the last meeting: Council Tax, NNDR (Business Rates), Casual Workers, and Bulky Waste.

It was reported that Internal Audit were on track to deliver 88% of the current audit plan, this would be higher than the target of 85% set at the beginning of the last financial year.

Members noted that an Internal Audit Reporting and Escalations Policy had been adopted.

RESOLVED

That the summary of audit and project work undertaken since December 2017 be noted

REASON

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017)
- ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control

AAG/93 **INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2018/19**

The Chief Internal Auditor presented the Internal Audit Strategy 2018/19 and Annual Plan, together with an Audit Charter.

The Internal Audit Charter had been produced by Orbis and is in accordance with the UK Public Sector Internal Audit Standards.

Members were informed that the audit plan is risk based, and that there is flexibility to change the plan during the year to incorporate any significant emerging risks.

Internal Audit will meet with each director twice a year to discuss risks and issues within their areas of responsibility.

It was noted that the level of audit resources (measured in days) expected to be available for HDC had reduced over the last few years. It was noted that controls had improved during this period and the Chief Internal Auditor considers that he will still be able to provide an annual audit opinion.

RESOLVED

That the Council's Internal Audit Strategy 2018/19 and Annual Plan, together with the updated Internal Audit Charter, be approved

REASON

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017)
- ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control

AAG/94 **ACCOUNTING POLICIES**

The Head of Finance presented Members with Accounting Policies, critical judgements and assumptions used in 2017/18.

RESOLVED

That the Accounting Policies, critical judgements and assumptions to be used in the 2017/18 accounts be noted.

AAG/95 **URGENT BUSINESS**

There was no urgent business.

AAG/96 **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/97 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT ON AUDIT FOLLOW UPS**

The Chief Internal Auditor summarised the progress on the implementation of agreed actions since the previous meeting.

Members noted the contents of the report, in particular the areas of concern highlighted by the Chief Internal Auditor.

The Chair of the Audit Committee will meet with the Director of Corporate Resources and Chief Internal Auditor to discuss the future of this report, and whether the content should continue to be reported as an 'exempt' item on the Audit Committee agenda.

RESOLVED

- i) That the progress in terms of agreed actions implemented since December 2017 be noted.
- ii) That the position in respect of the specific areas highlighted by the Chief Internal Auditor be noted.

REASON

The Audit Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

The meeting closed at 7.12 pm having commenced at 5.30 pm

CHAIRMAN

**Horsham District
Council**
Audit results report
Year ended 31 March 2018

5 July 2018

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Private and Confidential

5 July 2018

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our audit conclusion in relation to the audit of Horsham District Council (the Council) for 2017/18.

We have substantially completed our audit of the Council for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018.

We are reporting a number of matters on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 12 July 2018.

Yours faithfully

Paul King

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Horsham District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Horsham District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Horsham District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 13 December 2017 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with that plan.

We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.6m (Audit Planning Report – £1.4m). This results in updated performance materiality, at 75% of overall materiality, of £1.2m, and an updated threshold for reporting misstatements of £81,000.

We also identified areas where misstatement at a lower level than our overall materiality level might influence the reader and developed an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits. We audit these fully given their inherent sensitive nature.
- ▶ Related party transactions. We consider any related parties in terms of the underlying relationship and potential influence, and not simply the overall values disclosed.

Page
#3

Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- ▶ receipt of the response from Those Charged with Governance
- ▶ completion of subsequent events review
- ▶ review of the final statements and updating working papers to reflect the changes;
- ▶ final review of the file by the Associate Partner; and
- ▶ receipt of the signed management representation letter

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

We did not identify any unadjusted audit differences in the financial statements which management has chosen not to adjust.

We have also identified audit differences with an aggregated impact of £2.5 million which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risks:

- ▶ The medium term financial position
- ▶ The purchase of the Forum Shopping Centre and car park

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



Executive Summary

Other reporting issues

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

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

Independence

We have no issues to report.

Please refer to Section 9 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

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What judgements are we focused on?

As part of our work we focused the key judgemental areas of financial statements, such as accounting policies, the model applied to the minimum revenue provision and unusual transactions.

We reviewed accounting estimates for evidence of management bias, and specifically focused on the following:

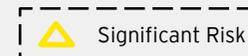
- ▶ IAS 19 disclosures;
- ▶ NDR appeals provision; and
- ▶ Valuation of land and buildings in Property, Plant and Equipment and Investment Properties.

What did we do?

We have performed the procedures described in our original audit plan. Please see the following page for full details.

What are our conclusions?

Our audit work found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation





Areas of Audit Focus

Significant risk



Further details on procedures/work performed

We identified the key fraud risks at the planning stage of the audit and considered the effectiveness of management's controls that are designed to address the risk of fraud. We updated our understanding of the risks of fraud and the controls put in place to address them and made enquiries of Internal Audit, management and those charged with governance to support our understanding.

We have:

- ▶ Reviewed the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of the financial statements.
- ▶ Formed an expectation of the movements we expected to see in the Balance Sheet from the prior year, based on our review of minutes and reports and meetings with officers through the year. We reviewed, gained an understanding of and tested the movements in accounts receivable and accounts payable balances within the Balance Sheet from the prior year and challenged where those movements were outside our expectations.

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Reviewed, discussed with management and challenged any accounting estimates on revenue or expenditure recognition for evidence of bias, specifically:

- ▶ IAS 19 disclosures;
- ▶ NDR appeals provision; and
- ▶ Valuation of land and buildings in Property, Plant and Equipment and Investment Properties.

We found that the valuation method for each of the above has not changed from prior years.

- ▶ Reviewed the transactions in the financial statements for evidence of any significant unusual transactions. Other than the purchase of the Forum, which is not strictly outside the Council's normal course of business but is an unusually large investment property purchase for the Council.



Areas of Audit Focus

Other risk

New financial management system

What is the risk?

The Council introduced its new Technology One financial management system with effect from 4 September 2017. It put in place measures to migrate data on 2017/18 transactions and balances from the old to the new financial management system. The Council's 2017/18 financial statements will be prepared using data taken from the new general ledger at the end of the financial year.

To ensure the Council prepares materially accurate and complete 2017/18 financial statements it is essential that the Council is assured that it has migrated all financial data to its new general ledger.

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What did we do?

- ▶ We have reviewed the actions taken by the Council to ensure the complete and accurate migration of financial data to the new general ledger. This included reviewing the effectiveness of the reconciliation processes.
- ▶ We obtained GL data for the five months of posting into Total prior to the migration and equivalent data for Technology One
- ▶ We confirmed opening balances and transactions had been migrated correctly through a comparison at the subjective code level
- ▶ We identified one migration difference relating to the spurious creation of VAT related to income arising on the Forum purchase. This was corrected via manual journal.
- ▶ Our procedures provided sufficient evidence to conclude that the migration of transactions and balances was materially correct
- ▶ Our review also included the process by which the statements are produced from the new financial management system
- ▶ We have included our recommendations arising in the conclusions section right

What are our conclusions?

Our procedures identified that the migration of transactions and balances was materially correct.

From our review the production of the accounts from the new financial management system we have the following recommendations:

- 1) Use one income code in the ledger for each MIRS adjustment which can then easily be excluded when producing the CIES
- 2) Similarly, set up below the line codes should be set up for each item that appears below cost of services to ensure these do not have to be manually removed when producing the CIES.
- 3) The one exception to point (2) is investment property income and expenditure. This is based on a cost centre analysis (one cost centre per investment property). An investment property cost centre group should be added to the ledger hierarchy.
- 4) A level should be added to the cost centre hierarchy which directly matches the CIES. At the moment the hierarchy is at a more disaggregated level and has to be manually added up in Excel.



Areas of Audit Focus

Other risk

Valuation of Land and Buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

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What did we do?

We had early conversations with officers to identify potential pitfalls in the valuation of the Forum. Our review of this valuation identified a calculation error by the Council's valuer and a change to the yield required for one retail unit.

We have:

- ▶ Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for land and buildings within Plant, Property and Equipment and annually for Investment Properties. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements,

What are our conclusions?

Our review identified two valuation differences. The first related to an investment property (Blatchford) consisting of 20 industrial units. For one of the units the reversion rent had been overstated causing the overall valuation to be overstated by £595,000.

The second issue related to North Street car park included on an existing use value basis. The change in use to an income generating car park had not been communicated to the valuer and the income was allocated against another car park and as a result a new asset has been included in the asset register. The impact of this is to reduce the value of one car park by £64,000 and the North Street car park has been valued at £736,000.

We have confirmed these errors are isolated in nature and as they have been corrected we conclude that land and buildings are correctly valued in the financial statements.



Areas of Audit Focus

Other risk

Pension asset valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.

The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £2 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

- We have:
- ▶ Liaised with the auditors of West Sussex County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Horsham District Council;
 - ▶ Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
 - ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We identified that the Fund value at 31 March 2018 used by the actuary in their report was understated. The actuary uses the Fund value as at 31 December and estimates how Fund performance will affect the values as at 31 March. The Fund performance was significantly higher than the benchmark in Quarter 4 and this caused the difference between the actuary's estimation and the actual Fund value to be significant for 2017/18. The Council requested the actuary to re-issue their IAS 19 report, using the actual Fund value at 31 March 2018. The Council amended their financial statements to reflect the revised report. The effect of this was to increase the pension asset on the Balance Sheet by a further £2.5 million to £10.3 million. The amendment to the financial statements are included in the summary of adjusted difference in Section 4 of this report.

What are our conclusions?

We are satisfied that the required IAS 19 disclosures have been reflected in the financial statements and are based on accurate supporting information.



Areas of Audit Focus

Other risk

Earlier deadline for production of the financial statements

What is the risk?

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provided risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers and internal quality assurance arrangements.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we required:

- ▶ good quality draft financial statements and supporting working papers by the agreed deadline;
- ▶ appropriate Council staff to be available throughout the agreed audit period; and
- ▶ complete and prompt responses to audit questions.

If we were unable to meet key dates within our agreed timetable, we notified you of the impact on the timing of your audit.

Where additional work was required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we notified you of the impact on the fee and the timing of the audit.

What are our conclusions?

The risk did not crystallise and that we anticipate being in a position to issue the audit report by the 31 July deadline.

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What did we do?

We have:

- ▶ Worked with the Council to engage early to facilitate early substantive testing where appropriate.
- ▶ Facilitated faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- ▶ Worked with the Council to implement EY Client Portal, this:
 - ▶ Streamlined our audit requests through a reduction of emails and improved means of communication;
 - ▶ Provided on -demand visibility into the status of audit requests and the overall audit status;
 - ▶ Reduced risk of duplicate requests; and
 - ▶ Provided better security of sensitive data.
- ▶ Agreed the team and timing of each element of our work with you; and
- ▶ Agreed the supporting working papers that we require to complete our audit.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HORSHAM DISTRICT COUNCIL

Opinion

We have audited the financial statements of Horsham District Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Movement in Reserves Statement,
- ▶ Comprehensive Income and Expenditure Statement,
- ▶ Balance Sheet,
- ▶ Cash Flow Statement,
- ▶ Collection Fund,
- ▶ and the related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Horsham District Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

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

of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Director of Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the narrative statement set out on pages 2 to 8, other than the financial statements and our auditor's report thereon. The Director of Corporate Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other



Audit Report

Draft audit report

Our opinion on the financial statements

information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Horsham District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and

Accountability Act 2014;

- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Director of Corporate Resources

As explained more fully in the Statement of the Director of Corporate Resources' Responsibilities set out on page 9, the Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit



Audit Report

Draft audit report

Our opinion on the financial statements

conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the C&AG in November 2017, as to whether the Horsham District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Horsham District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Horsham District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper

arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Horsham District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

Paul King (Associate Partner)
Ernst & Young LLP (Local Auditor)
Southampton
xx July 2018



Audit Report

Draft audit report

Our opinion on the financial statements

The maintenance and integrity of the Horsham District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences





Audit Differences

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

Summary of adjusted differences

We highlight the following misstatement greater than £1.2m which have been corrected by management that were identified during the course of our audit:

- ▶ £2.5 million increase in the value of the pension asset and corresponding effect on the other comprehensive income. The actuary uses the Fund value as at 31 December and estimates how Fund performance will affect the values as at 31 March. The Fund performance was significantly higher than the benchmark in Q4 and this has caused the difference between the actuary’s estimation and the actual Fund value. The actuary consequently re-issued their report using the actual Fund value.

Summary of unadjusted differences

There were no unadjusted audit differences.



05

Value for Money Risks





Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

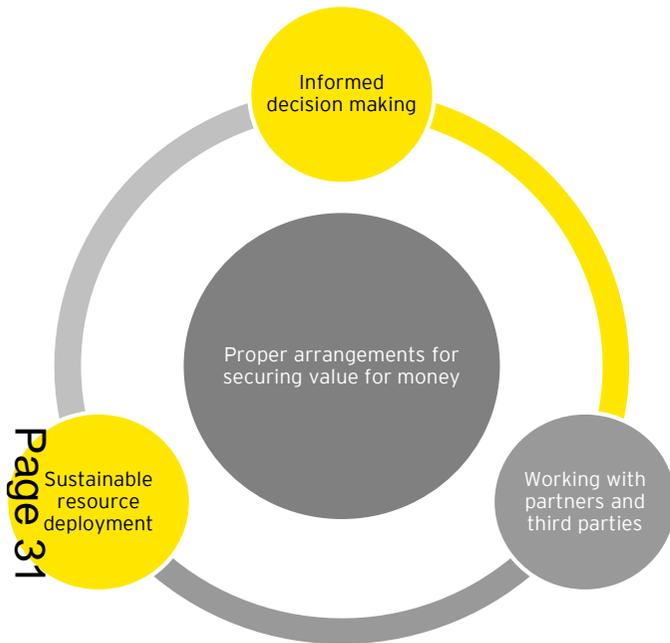
For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.



Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report. The Council also requested that we look into three specific areas as part of our value for money conclusion planning. These have been detailed on page 27.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.



Value for Money Risks

| What is the significant value for money risk? | What arrangements did the risk affect? | What did we do? |
|---|---|---|
| <p>Medium term financial position</p> <p>Local government continues to face considerable financial challenges and Horsham District Council is not immune from these pressures.</p> <p>We were aware from our review of the Council's budget monitoring for 2017/18 to quarter 2 that it is forecasting a budget surplus of around £250,000 for the year. The Council is also planning to set a balanced budget for 2018/19 and 2019/20.</p> <p>However, the financial position in future years is far more challenging and achieving financial balance will continue to become progressively harder. The current medium term financial plan is predicting significant budget gaps over the remaining years of the medium term financial plan to 2022 of £1.7m in 2020/21 and £2.3m in 2021/22 after assuming that income and efficiency actions being worked on are implemented.</p> | <p>Deploy resources in a sustainable manner</p> | <p>We have:</p> <ul style="list-style-type: none"> ▶ Performed a detailed review of how the medium term financial plan is created. ▶ Examined and challenged the key assumptions used by the Council to create the medium term financial plan. ▶ Reviewed the extent to which the Council is dependent upon future savings. For significant savings we will test the estimated savings in order to ensure that the Council's assumptions are reasonable. <p>In summary, we remain satisfied that the MTFs has been prudently updated in the light of the current economic climate and that the assumptions underpinning it remain reasonable. However, there is still significant uncertainty over future funding from Central Government. Therefore, the Council needs to continue to seek out methods to generate savings without impacting on services and retaining a sustainable financial position.</p> <p>Our detailed findings are set out on pages 25 and 26.</p> |
| <p>The purchase of the Forum Shopping Centre and car park</p> <p>During the year the Council entered into the purchase of the Forum Shopping Centre and car park (the Forum) for some £15m.</p> <p>This is a significant transaction for the Council and requires a significant use of reserves and some external borrowing to manage cashflow.</p> <p>Given the value of this transaction and the fact that the Council has taken the decision to fund this in part through external borrowing and in part from reserves, we have at this stage assessed this as a significant risk for the value for money conclusion.</p> <p>The purchase of the Centre has changed the way in which the Council manages its cashflow, requiring use of short term borrowing.</p> | <p>Take informed decisions</p> | <p>We have:</p> <ul style="list-style-type: none"> ▶ Performed a detailed review of the arrangements through which the Council entered into the purchase of the Forum to ensure that this represents value for money for the Council, including the business case for the purchase and the advice sought by the Council to support the decision. ▶ Examined and challenged the key assumptions used by the Council in arranging the financing of the purchase. ▶ Reviewed the Council's cashflow management to understand the impact of the purchase of the Centre on the Council's ability to meet its financial commitments and that this was communicated to members. <p>Our detailed findings are set out on the following pages.</p> |



Other matters to bring to your attention

What are our findings?

Deploy resources in a sustainable manner - Medium term financial position

The MTFS is prepared using the prior year as a starting point and then updated for changes in key figures based on known changes. The MTFS process is being made more robust with more member involvement, to keep them sighted of the issues facing the Council and to enable them to revisit the assumptions underpinning the MTFS more frequently.

The assumptions underpinning the figures in the MTFS appear to be made on a sound basis. The MTFS currently budgets for a 3% increase in inflation on the expectation that inflation will remain at, or near, current levels. At the time that the Council prepared the MTFS, the Bank of England suggested (in its November 2017 inflationary forecast) that CPI would peak in 2017 at 3.25% and fall back towards its own target of 2% reaching 2.5% by 2019. Therefore use of the Bank of England's target rate appears a reasonable estimate. All other assumptions appear reasonable and based on accurate underlying data.

The Council achieved a greater surplus in 2017/18 than initially budgeted and their financial position remains sound at the end of 2017/18. The Council has a good recent record of identifying and making savings, and in meeting its budget. Despite initially predicting budget gaps for the past three years, the Council were able to set balanced budgets for all periods, including looking forward to 2018/19 and 2019/20, including small predicted surpluses. The current MTFS continues to show a surplus or break-even position, through to 2019/20, despite the purchase of the Forum during the year and the uncertainty at the time over the impact that this would have on the Council's cashflow structure.

The MTFS covers the four year period 2018/19 to 2021/22 and sets out key planning assumptions and resources projections together with information about key areas for capital and revenue investment and financing and treasury management strategies. The key driver of the financial projections in the MTFS continues to be the impact of reductions in central government funding over the medium to long term. The estimates reflected in the MTFS include significant reductions in both Revenue Support Grant and specific grants over the period. There is explicit recognition that there remains some uncertainty over the timing and scale of future funding reductions.

We remain satisfied that the MTFS has been prudently updated in the light of the current economic climate and that the assumptions underpinning it remain reasonable, there is still significant uncertainty in the future funding from Central Government. Therefore, the Council needs to continue to seek out methods to generate savings without impacting on services and retaining a sustainable financial position.

Take informed decisions - The purchase of the Forum Shopping Centre

The Council have several documents setting out the background of the purchase and held a presentation for members, setting out how this purchase met their property investment strategy. As part of this, the Council considered the value for money of the purchase, including the beneficial impact of the purchase of the car park which was leased to the Council, considering the likely future revenue streams from the purchase and the way in which the purchase would fit with the Council's future aims.

The Council sought advice from internal legal counsel and the Head of Property and Facilities regarding how this would feed into the Council's developing property investment strategy and external advice on the purchase from GVA on property aspects, but also others on the trading performance of the lessees. They also obtained tax advice from PSTax, in terms of tax treatment of the purchase and from their fund manager Arlingclose Limited regarding different methods to fund the purchase. The Council kept members informed of progress and requested authorisation where necessary and received challenge from members through the process.



Other matters to bring to your attention

What are our findings? (continued)

The key assumption was that the Council could fund the purchase from short term borrowing and reserves. The Council had anticipated that they would require to borrow to ease cashflow on a short term basis until investment deposits came back. The fact that at the year end the only borrowing in the Council's financial statements is the long term PWLB loan which is repayable by 31 March 2019 proves the validity of this assumption. Discussions with officers and review of records has confirmed that the Council has not required to borrow on short term bases as much had been initially anticipated to cover cashflow requirements.

The Council were able to fund this purchase from short term borrowing (which it has since repaid) and reserves, having taken advice from Arlingclose Limited regarding and achieving significantly lower borrowing rates than through the Public Works Loan Board.



Value for Money Risks

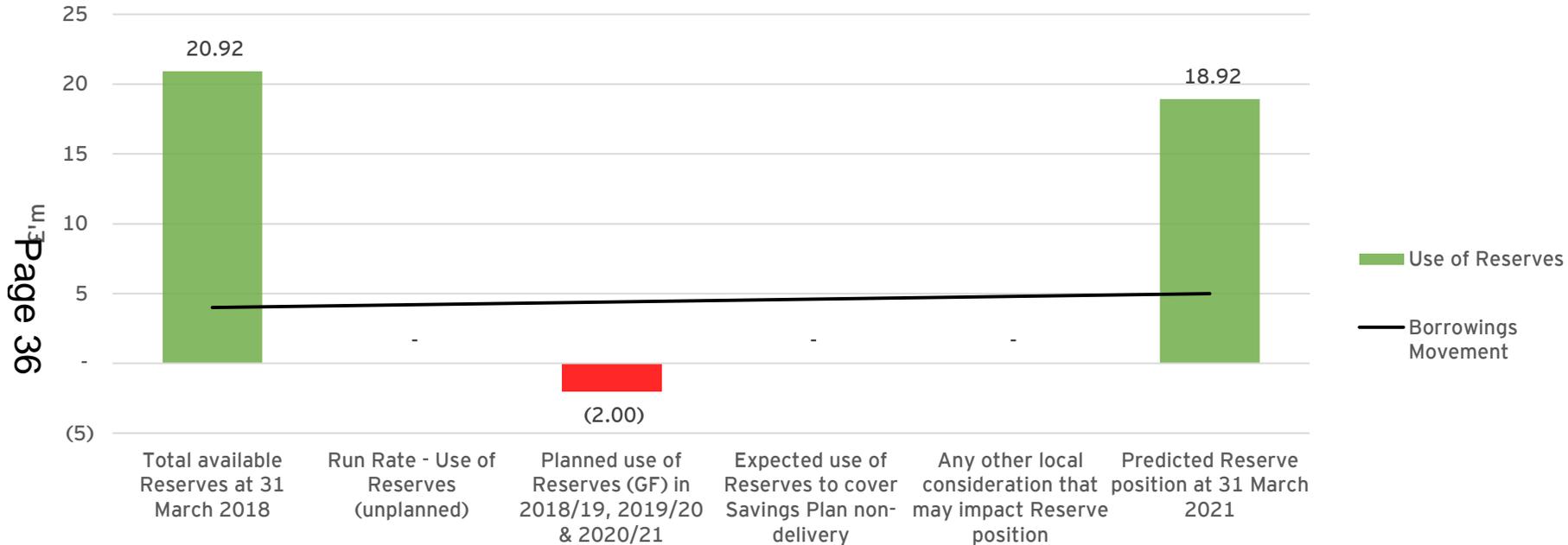
| Project | What did we do | Findings |
|--|---|--|
| <p>The Hop Oast Waste site redevelopment: The Council has redeveloped its waste depot at Hop Oast, modernising it and consolidating down from the previous two depots; it will be closing the one at Hurston Lane, Storrington, once the side-loading waste vehicle fleet has been retired in April 2018 (see separate review of changes to waste service).</p> | <p>We have</p> <ul style="list-style-type: none"> ▶ reviewed project board agendas/minutes, ▶ Reviewed the project timelines; and ▶ finance trackers for the project. <p>We also discussed the project with the Head of Finance.</p> | <p>The majority of key decision making is historical (taking place prior to 2017/18), and the information reviewed indicates that the project is on track both in terms of overall budget and expected timescales for completion. The evidence provided also supports the conclusion that there has been appropriate member involvement in key decision making, and that there is regular monitoring of progress on the project through a project board composed of senior officers and external experts.</p> <p>Based on this review, we have concluded that the project does not indicate that there is a significant risk to our Value for Money Conclusion for 2017/18.</p> |
| <p>The Broadbridge Heath Leisure Centre redevelopment: The Council has entered into a contract to provide a new leisure centre and associated facilities at Broadbridge Heath.</p> | <p>We have</p> <ul style="list-style-type: none"> ▶ reviewed project board agendas/minutes, ▶ Reviewed the project highlight reports, and ▶ Reviewed the finance trackers. <p>We have also discussed the project with the Head of Finance.</p> | <p>As with the Leisure Centre project, the majority of key decision making took place prior to 2017/18 and the information provided indicates that the project has been completed to target both in terms of overall budget and expected timescales. The project was significant in terms of overall cost, but not out of the ordinary. The evidence provided also supports the conclusion that there has been appropriate member involvement in key decision making, and that there was appropriate, regular monitoring of progress on the project through a project board comprising senior officers and external experts.</p> <p>We have concluded that the project does not represent a significant risk to our Value for Money Conclusion in 2017/18.</p> |
| <p>Changes to the waste collection: The Council has made changes to the operating model for its waste collection and recycling services, and procured a new fleet of vehicles. Principally these changes are a move to Alternate Weekly Collection (AWC) - collecting waste fortnightly rather than weekly as had previously been the case, alternating weeks between waste and recycling collections - and a shift from side-loading waste lorries, to rear-loading.</p> | <p>We have</p> <ul style="list-style-type: none"> ▶ reviewed project board agendas/minutes, ▶ Reviewed option appraisals, ▶ Reviewed KPIs; and ▶ Reviewed some of the related finance trackers. <p>We have also discussed the project with the Head of Finance.</p> | <p>The value of the procurement is material, but not exceptional, and has been delivered to budget. The approach being adopted - use of rear-loading vehicles, and Alternate Weekly Collection (AWC), is common to a large number of other councils, and therefore not out of the ordinary. A high degree of political and public interest in changes such as adopting AWC is also to be expected, but again not out of the ordinary. The evidence provided also supports that there has been appropriate member involvement in key decision making, and that there is appropriate, regular monitoring of progress on the project through a project board.</p> <p>Based on this review we have concluded that the changes to the waste service do not present a Value for Money Conclusion significant risk for 2017/18.</p> |



Value for Money

As part of our assessment of your proper arrangements, we considered the Council's financial resilience over the medium term and the impact on the level of General Fund Reserve balances at the 31 March 2018 and at the 31 March 2021.

Assessment of Reserves Position to 2021



Our Assessment

In our assessment we considered:

- ▶ The Council's level of savings requirement to balance the General Fund budget in each of the next three years;
- ▶ The Council's planned use of reserves to support the General Fund budget in each of the next three years;
- ▶ the Council's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- ▶ the Council's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- ▶ any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

We have also looked at the Council's planned use of borrowing over the same time frame to inform our assessment.

As a result of our assessment, we are satisfied that the Council's General Fund reserve balance at 31 March 2021 will remain above the Council's approved minimum level.



06 Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Narrative Statement in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Page 30

Whole of Government Accounts

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

We have no issues to raise.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

We have no other matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

Under ISA (UK&I) 265 it is mandatory to communicate significant deficiencies in internal control in writing to any audit client. Unless the audit team has used the 'Management Letter template' to communicate significant deficiencies, it is mandatory to use this section if there are any.

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



08 Data Analytics



Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal Entry Analysis

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

Payroll Analysis

We also use our general ledger analyser in our payroll testing. We analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



09

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report presented to the Audit Committee on 13 December 2017.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 12 July 2018.

Independence



Relationships, services and related threats and safeguards



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

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

| | Final fee 2017/18 | Planned fee 2017/18 | Scale fee 2016/17 | Final Fee 2016/17 |
|---|----------------------|------------------------|----------------------|----------------------|
| | £ | £ | £ | £ |
| Total Fee - Code work | TBC | 50,094 | 50,094 | 50,094 |
| Other non-audit services not covered above (Housing Benefits) | TBC | 10,537 | 12,383 | 12,383 |
| Total fees | TBC | 60,631 | 62,477 | 62,477 |

The audit fee covers the:

- ▶ Audit of the financial statements
- ▶ Value for money conclusion
- ▶ Whole of Government accounts.

For Horsham District Council our indicative fee was set at the scale fee level. This indicative fee was based on certain assumptions, including:

- ▶ The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year
- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes identified within our audit strategy;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the council;
- ▶ There is an effective control environment; and
- ▶ Prompt responses are provided to our draft reports.

We are discussing additional fees with officers in relation to the change in financial management system; the additional value for money areas that the Audit Committee requested us to review and our work on the valuation of the Forum, which included the involvement of EY Real Estate as an auditor's expert.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.



10 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

|  Our Reporting to you | | |
|--|---|--|
| Required communications |  What is reported? |   When and where |
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit planning report - December 2017 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report - December 2017 |
| Significant findings from the audit | <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process | Audit planning report - December 2017 |

Appendix A

| | | Our Reporting to you |
|-------------------------|--|--|
| Required communications | What is reported? | When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | No conditions or events were identified, either individually or together to raise any doubt about Horsham District Council's ability to continue for the 12 months from the date of our report |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management | Audit results report - July 2018 |
| Subsequent events | <ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Audit results report - July 2018 |
| Fraud | <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ul style="list-style-type: none"> ▶ Management; ▶ Employees who have significant roles in internal control; or ▶ Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. | Audit results report - July 2018 |

Appendix A

| | | Our Reporting to you |
|---------------------------------------|---|---|
| Required communications | What is reported? | When and where |
| Related parties | <p>Significant matters arising during the audit in connection with the Council's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Council | Audit results report - July 2018 |
| Independence | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> | Audit planning report - December 2017 and Audit results report - July 2018 |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. | We have received all requested confirmations |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ 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 | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |

Appendix A

| | | Our Reporting to you |
|--|---|---|
| Required communications | What is reported? | When and where |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. | Audit results report - July 2018 |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ 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 | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. | Audit results report - July 2018 |
| Written representations we are requesting from management and/or those charged with governance | <ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance | Audit results report - July 2018 |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report - July 2018 |

Appendix A

| | | Our Reporting to you |
|-------------------------|--|---|
| Required communications | What is reported? | When and where |
| Auditors report | <ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report | Audit results report - July 2018 |
| Fee Reporting | <ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work | Audit planning report - December 2017 and Audit results report - July 2018 |
| Certification work | <ul style="list-style-type: none"> Summary of certification work | Certification Report - January 2019 |

Management representation letter

Management Rep Letter

Ernst & Young LLP

Wessex House
19 Threefield Lane
Southampton
Hampshire
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Horsham District Council (“the Council”) for the year ended 31 March 2018. 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 Council financial position of Horsham District Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, 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. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistleblowers”) including non-compliance

Management representation letter

Management Rep Letter

matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the year to the most recent meeting on the following date: 12 July 2018.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. 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.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in 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.

Management representation letter

Management Rep Letter

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision in generating the IAS19 pension disclosures and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

H. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.
2. We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

I. Retirement benefits

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

Signed on behalf of Horsham District Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 12 July 2018

Signed:

Name: Jane Eaton

Position: Director of Corporate Resources

Date:

Name: Stuart Ritchie

Position: Chairman, Audit Committee

Date:

About EY

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

To:
Paul King
Director
Ernst & Young LLP
Apex Plaza,
Forbury Road
Reading
RG1 1YE

Date: 12 July 2018

This letter of representations is provided in connection with your audit of the financial statements of Horsham District Council (“the Council”) for the year ended 31 March 2018. 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 Council financial position of Horsham District Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in

the United Kingdom 2017/18, 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. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the year to the most recent meeting on the following date: 12 July 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. 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.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in 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.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision in generating the IAS19 pension disclosures and have adequately considered

the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

H. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.
2. We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

I. Retirement benefits

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

Signed on behalf of Horsham District Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 12 July 2018

Signed:

Name: Jane Eaton

Position: Director of Corporate Resources

Date: 12 July 2018

Name: Stuart Ritchie

Position: Chairman, Audit Committee

Date: 12 July 2018

Report to Audit Committee

24th July 2018

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt



Annual Governance Statement 2017/18

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 2017/18. 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

That the Committee is recommended:

- i) To approve the draft Annual Governance Statement for 2017/18.

Reasons for Recommendations

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

Background Papers: Supporting evidence, Head of Service Assurance Statements, and the Annual Internal Audit Report.

Consultation: The Senior Leadership Team, Monitoring Officer, Head of Community & Culture, Head of Finance, Head of HR & OD, Head of Technology Services and the Chief Internal Auditor.

Wards affected: All

Contact: Julie McKenzie Project Assurance Manager, 01403-215306

Attachments:

Appendix A: Annual Governance Statement 2017/18

Appendix B: Local Code of Corporate Governance

Appendix C: Governance Assurance Framework

Appendix D: AGS Action Plan 2017/18

Appendix E: AGS Action Plan 2018/19

Background Information

1 Introduction and Background

- 1.1 The Accounts and Audit (England) Regulations 2015 require the Council to review, at least annually, the effectiveness of its governance arrangements and publish an Annual Governance Statement.
- 1.2 Senior officers have been consulted and supporting documentation has been updated to reflect the current position.

2 Relevant Council Policy

The Audit Committee is responsible for approving the Annual Governance Statement in accordance with the Committee's terms of reference.

3 Details

- 3.1 The Annual Governance Statement for 2017/18 is attached in Appendix A.

4 Next Steps

- 4.1 The Committee is asked to approve the Annual Governance Statement.

5 Outcome of Consultations

- 5.1 Key officers have been consulted when compiling the Annual Governance Statement, including the Senior Leadership Team; Monitoring Officer; Head of Community & Culture; Head of Finance; Head of Human Resources and Organisational Development; and the Chief Internal Auditor. In addition, Heads of Service have completed and signed Annual Assurance Statements covering their areas of responsibility.

6 Other Courses of Action Considered but Rejected

- 6.1 None.

7 Resource Consequences

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

8 Legal Consequences

- 8.1 Regulation 6 of The Accounts and Audit (England) Regulations 2015 requires that:-

6.—(1) A relevant authority must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
- (b) prepare an annual governance statement;

(2) If the relevant authority referred to in paragraph (1) is a Category 1 authority, following the review, it must—

(a) consider the findings of the review required by paragraph (1)(a)—

(i) by a committee; or

(ii) by members of the authority meeting as a whole; and

(b) approve the annual governance statement prepared in accordance with paragraph (1)(b) by resolution of—

(i) a committee; or

(ii) members of the authority meeting as a whole.

8.2 In 2016 CIPFA/SOLACE published a revised framework for Corporate Governance: "Delivering Good Governance in Local Government Framework". This framework provides a useful and practical update and follows seven core principles of good governance. The Framework urges local authorities to review and report on the effectiveness of the governance arrangements.

9 Risk Assessment

9.1 There are no risks associated with this report.

10 Other Considerations

10.1 This report has no effect on Crime & Disorder; Human Rights; Equality & Diversity or Sustainability.

Horsham District Council Annual Governance Statement 2017-18

1. SCOPE OF RESPONSIBILITY

Horsham District Council is responsible for ensuring that its business is conducted in accordance with the law, regulations and proper standards, and that public money is safeguarded from waste, extravagance or misappropriation. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness in the exercise of its responsibilities.

Horsham District Council approved and adopted a Local Code of Corporate Governance on 22 March 2017 which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA), and Society of Local Authority Chief Executives (SOLACE) Framework for Delivering Good Governance in Local Government. A copy of the Local Code is available on our website or can be obtained from the Council offices. This statement explains how Horsham District Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) regulations 2015 in particular regulation 6(1)(b), which requires all relevant bodies to prepare an Annual Governance Statement.

2. THE GOVERNANCE ASSURANCE FRAMEWORK

The Governance Assurance Framework has been in place at Horsham District Council for the year ended 31 March 2018 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2017/18 financial year.

The Council's Governance Framework encompasses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The structures and processes, risk management and other internal control systems are in place to monitor and manage the delivery of the Council's aims and objectives:

The core principles of the Council's Governance Framework are set out below:

A: Integrity; Ethical Values: the Rule of Law

B: Openness; engaging with institutional stakeholders; engaging with individual citizens and service users.

C: Defining Outcomes; sustainable, economic, social and environmental benefits.

D: Determining and planning interventions; optimising achievement of intended outcomes.

E: Developing the capacity of the entity through its leadership and other individuals.

F: Managing risks; managing performance; robust internal control; managing data; strong public financial management.

G: Good practice in transparency, reporting and audit to deliver effective accountability.

3. CORPORATE GOVERNANCE, VISION AND OBJECTIVES

The Corporate Governance Framework is aligned with the Council's Corporate Plan which outlines the Council's vision, aims and objectives. The current Corporate Plan was published in February 2016 on the Council's website and covers the period 2016-2019.

- The Council aims to deliver high quality services that meet the needs of the local community. This is set out in the Council's Corporate Plan for Horsham which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. This is formally reviewed and updated each year.
- The Corporate Plan is supported by the Medium Term Financial Strategy and the Council's annual budget to ensure the implications on the Council's finances are considered when the objectives are set.
- Departmental strategies and annual service plans are developed which support the delivery of the Corporate Plan, by identifying how each department contributes to the delivery of the overall aims and objectives of the Council.
- The Council's Performance Management Framework includes key performance indicators associated with the Corporate Plan. Performance on a basket of key corporate indicators is reported to the Senior Leadership Team, the Cabinet Portfolio Holders and to the Scrutiny and Overview Committee. Annual performance against targets is published on the Council's website in the Performance Indicator End of Year Report. The Council's Annual Report, which is also published on the Council's website, provides an annual summary of the year's progress against the stated Corporate Plan priorities.
- Every report submitted to the Cabinet or regulatory committee must outline how the recommended action helps to achieve one or more of the Corporate Plan priorities.

4. MEMBERS AND OFFICERS WORKING TOGETHER

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 Leader, Cabinet Members, and Chairmen and Vice Chairmen of standing committees receive briefings from senior management on a regular basis and Members receive training as part of the induction process.

A review of governance arrangements at the Council was reported to Full Council on 27 April 2016. The Governance Review focused on ensuring Horsham District Council has the most suitable and effective governance arrangements. The Council continues to operate The Cabinet Executive Model supported by a number of Policy Development Advisory Groups. The process of undertaking this review has widened the collective knowledge and understanding amongst Members which has continued in 2017/18.

Cabinet policy development advisory groups meet periodically on significant areas of business to ensure there is engagement with back bench Councillors on strategic direction.

In March and April 2017 the Overview and Scrutiny Committee reviewed its effectiveness using the guidance from the Centre for Public Scrutiny. The outcome of this review was the Committee disbanded its standing sub-committees and agreed to establish up to 3 task and finish groups to review particular issues.

The Council participates in a number of partnerships with other local authorities. In particular the Revenues and Benefits, Building Control and Procurement. In March 2017 the Council issued notice to its partners to leave its revenues and benefits partnership with Mid Sussex and Adur District Councils. From 1 April 2018 the Council

will purchase its revenues and benefits service from the LGSS partnership based in Northamptonshire. In May 2017 the Council, in agreement with its partners Adur and Worthing and Mid Sussex Councils broke up its ICT partnership in favour of local working combined with a move to the Cloud. The Council also engages in local community development work with other local public bodies.

5. VALUES AND HIGH STANDARDS OF BEHAVIOUR

The Council has incorporated in its Constitution a Member Code of Conduct and an Employee Code of Conduct. A register of declared interests is held for officers. Member's Registers are available on the Council's website. Members are required to review their registers annually. Members are responsible for ensuring that if there are changes to their interests that the Monitoring Officer for the Council is notified of these changes. The Standards Committee promotes and maintains high standards of conduct by Councillors and also considers whether a complaint or allegation of misconduct by a Member should be investigated. The Council has also appointed Independent Person in accordance with the Localism Act 2011. The Council has two Independent persons who attend the Standards Committee.

As part of an ongoing Organisational Development Programme to ensure we have employees with the right skills, behaviours and attitudes, the organisation has developed core values of 'customer focus', 'achieving excellence' and 'our people'. Desired behaviours are set out in the Corporate Behavioural Framework which forms part of annual performance appraisals. Individuals are assessed against desired behaviours, with training needs identified to improve personal performance.

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 Council has the following policies and procedures in place which aim to prevent or deal with any instances of fraud, dishonesty or malpractice.

- Anti-Fraud and Corruption Policy
- Anti-Money Laundering Policy
- Whistleblowing Policy
- HR Disciplinary Policies
- Council's Equality Scheme
- Information Security Policies

6. 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 comprehensive review of the Constitution was completed in September 2016, and the amendments were approved by Full Council on 7th December 2016. Minor improvements to the constitution have been made during the year.

The Council's Risk Management arrangements are reviewed for effectiveness by the Audit Committee to ensure the process is embedded in the culture of the authority.

The Audit Committee also reviews the Corporate Risk Register which details the most significant risks facing the Council.

All Heads of Service are responsible for implementing strategies at departmental level ensuring adequate communication, training and the assessment and monitoring of risks. All officers are responsible for considering risk as part of everyday activities and provide input to the risk management process.

The Chief Internal Auditor provides an annual opinion on the Council's governance arrangements, risk management systems and the overall control environment in his end of year report to the Audit Committee.

7. CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS

Training programmes for Council employees are identified from regular 1-2-1s, team meetings, staff appraisals and personal development programmes.

New Members to the Council receive induction training in key areas (including the Constitution), ethical governance, decision-making processes and the Council's Code of Members' Conduct. The induction also includes an introduction to the Council's services. All new Members are allocated a 'buddy' who is a senior Council officer tasked with helping the new Members to settle into the Council. There is an ongoing training programme of Member briefings on important areas of the Council's work. There is also ongoing training covering specific issues in a variety of areas. In preparation for the introduction of the General Data Protection Regulations in May 2018 all staff have been given training and all Councillors offered training.

8. ENGAGEMENT WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS

The Council works hard to communicate its aims for the District. It conducts a wide range of service specific surveys to ascertain the views and needs of its residents. In autumn 2017 the Council carried out a customer satisfaction survey of the District. The results of this survey were analysed in the latter months of the financial year and an action plan will be developed in early 2018/19. The Council consults with Parish Councils and the Rural Towns Forum (i.e. a consortium of parish level Community Partnerships). It is a leading partner within the Think Family Partnership, Community Safety and Health and Wellbeing Partnerships, linking statutory and non-statutory agencies to provide a co-ordinated approach to delivery of the programme across the District. The Council works with voluntary and community sector partners to ensure effective provision of community engagement activities across the district. These partnerships share feedback from their own stakeholder consultation.

These groups help the Council to assess the priorities of different sections of the community that have different needs, particularly in areas such as Think Family Neighbourhoods, Grants and funding, Parish Councils where resources are being targeted. Compliments and feedback received are monitored and reported to the Overview and Scrutiny Committee as part of the quarterly performance management report.

9. DETAILS OF KEY GOVERNANCE MECHANISMS

Sources of assurance received for each of the core principles are set out in the Horsham District Council's Local Code of Corporate Governance. (See Appendix B).

10. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council's governance framework includes decision-making processes set out in the Council's Constitution, together with rules and procedures. A review of governance focussing on political structure and the decision-making process at a high level was completed in April 2016. The Council continues to operate the Cabinet Executive Model. Since this date the only significant changes to the governance framework were the Overview and Scrutiny Committee deleting its sub-committee in favour of task and finish groups, and the Council agreeing to the deletion of the CenSus Joint Committee from 1 April 2018 because the CenSus partnership will no longer exist from this date.

Mechanisms for maintaining and reviewing the effectiveness of the Council's governance arrangements throughout the year include:

- The Council comprises 44 Members and, as a whole, takes decisions on budget and policy framework matters as defined by the Constitution, including deciding on the aims and objectives of the Council as set out in the Corporate Plan and other decisions that are reserved in law to be taken only by the Council
- The Overview and Scrutiny Committee is able to scrutinise the decisions of the Cabinet and maintains an overview of Council activities which includes monitoring performance management.
- The Cabinet is ultimately responsible for considering overall financial and performance management. Budget and performance monitoring reports are received on a quarterly basis by Overview and Scrutiny Committee.
- The Standards Committee meets quarterly and at every meeting considers an update report on complaints against Councillors. The Committee also keeps under review the Council's policies and procedures for maintaining high ethical standards.
- The Audit Committee meets three times a year to review the Council's risk management and control arrangements. It also reviews the Council's Treasury Management and Investment Strategies and has delegated authority to review and approve the statutory financial statements and consider reports from the Council's external auditors.
- The role of the Director of Corporate Resources (as Chief Financial Officer) includes stewardship and probity in the use of resources and performance, extracting best value from the use of those resources. The Chief Financial Officer complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.
- An annual audit plan is developed, in consultation with senior managers, which outlines the assignments to be carried out and estimated resources. The audit plan is sufficiently flexible to enable the Internal Audit team to respond to changing risks and priorities of the organisation.
- The Head of Legal and Democratic Services (as Monitoring Officer) has a duty to ensure that operations are carried out lawfully. During the year, there was a vacancy in post, but the statutory function of Monitoring Officer was undertaken by the Monitoring Officer from Crawley Borough Council on an interim basis

11. IMPROVEMENTS DURING THE YEAR

The following improvements to the Governance Framework were recognised during 2017/18:

- An annual review of performance indicators has been undertaken by Heads of Service and the Senior Leadership Team to ensure that these are meaningful and useful in helping services to achieve their objectives.
- The Overview and Scrutiny Committee reviewed its effectiveness leading to it deleting its sub-committee in favour of Task and Finish Groups focussing on specific key subjects. Overview and Scrutiny has carried out Cabinet lead interviews at its meetings to ensure it understands the full range of work overseen by these Councillors.
- E-Learning training has continued for staff. Learning and development has focused on helping to discharge the Council's statutory responsibilities in relation to health and safety, General Data Protection Regulation (GDPR), Equality and Discrimination.
- A robust Training programme has been completed for all staff member to ensure the Council adheres to statutory safeguarding responsibilities
- Implementation of a new financial management computer system allowing clearer budgetary control by managers, with less intervention by finance staff, a simplification of the chart of accounts and a review of approval levels by budget holders.
- The implementation of the new financial management system as an infrastructure as a service system considerably reduces the risk of loss of the system in the event of a disaster at the Parkside building.
- A new Legal Case Management system was procured that will allow more accurate recording of our legal cases and better control of work in the Legal Services team.
- The replacement of Citrix with Direct Access has stabilised access to technology and systems files for remote working.
- A Corporate Governance Group including the s151 and Monitoring Officer was introduced meeting quarterly to review all governance issues.
- A Business Continuity group was introduced to review the Council's business continuity arrangements and review key business continuity risks.
- The agreement with the LGSS Councils for the provision of revenues and benefits services will considerably reduce the risk of the loss of the revenues and benefits system as a result of a disaster at the Parkside building.
- West Sussex County Council have replaced their generator at the Parkside building reducing the risk of loss the Council's operations and technology in the event of a power outage.
- An agreement has been put in place to move internal audit into the Orbis partnership from 1 April significantly increasing the resilience of this small team.
- A project risk management toolkit has been developed during 2017/18 which is to be used in the future for both existing and new projects. For larger projects, a structured process will be followed to help ensure that significant risks are identified and appropriately managed.

12. SIGNIFICANT GOVERNANCE ISSUES

The 2016/17 Annual Governance Statement included an Action plan for 2017/18. Progress against the risks identified is reported in Appendix D

New significant governance issues are reported to the Audit Committee. At the current time no significant governance issues have been identified but a number of recommendations for improvement are set out in a new action plan in Appendix E.

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.

Appendix B HDC Code of Corporate Governance

HORSHAM DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE

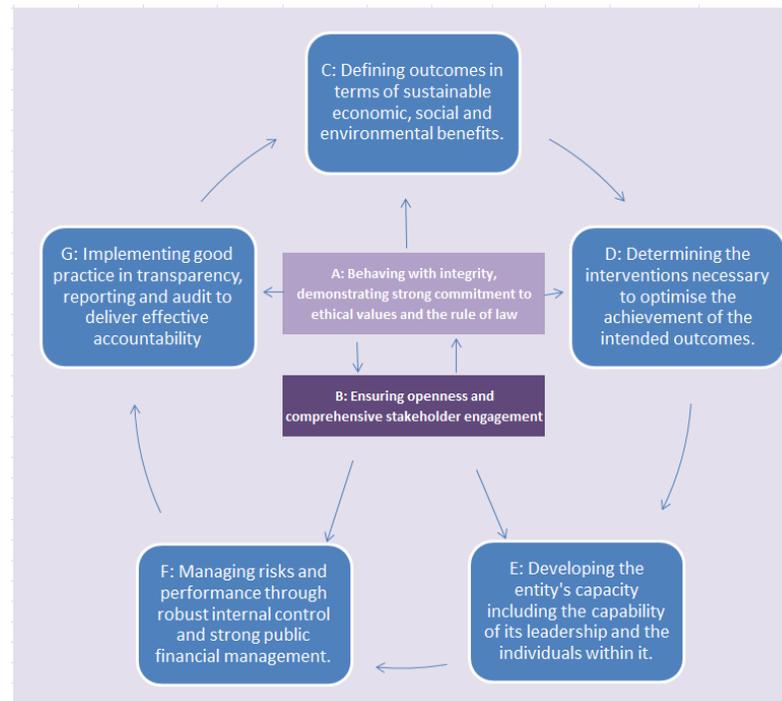
Corporate Governance comprises the systems, processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

The Council's behaviours and actions that demonstrate good governance are set out in response to the CIPFA core principles.

A: Integrity; Ethical Values: the Rule of Law

- Member and Officer Codes of Conduct are included in the Constitution setting out the values and behaviours that the Council requires Members and officers to adopt.
- Rules of Procedure govern the expected conduct at meetings of the Council and its committees.
- The Anti-fraud and Corruption Policy is designed to encourage and promote the prevention and detection of fraud.
- Member and Officer Registers of Interests, Gifts and Hospitality safeguard both Members and officers against conflicts of interest.
- The Whistleblowing Policy ensures anyone with a concern can have confidence that it will be dealt with appropriately.
- There are core competencies for officers and a performance appraisal process monitors officer behaviours.
- The Standards Committee considers complaints or allegations made against Councillors, as required by the Localism Act 2011.
- In accordance with 'Working Together to Safeguard Children 2015' and 'The Care Act 2014', we recognise the need to ensure the welfare of all individuals when they come into contact with services provided by the Council.



B: Openness; engaging with institutional stakeholders; engaging with individual citizens and service users.

- The Constitution sets out how the Council operates, how decisions are made and the procedures and codes of conduct that are followed.
- The Overview and Scrutiny Committee reviews the Council's decision making processes and monitors the internal and external delivery of services.
- The Audit Committee is independent of Cabinet and Scrutiny functions. It receives reports on the work of External and Internal Audit and Risk Management.
- The formation of a new Governance Committee has been agreed which will meet to review the Council's Constitution when the need arises.
- The Council supports local communities that produce their own Neighbourhood Plans providing a vision for their area.
- The Council engages with the public in a number of public consultations. These are publicised on the Council's website and the feedback informs the Council's decision making process.
- The majority of the Council's meetings are open to the public. Agendas, papers and minutes are published on the Council's website.
- The Council recognises that supporting and engaging communities is a shared agenda with many partners including West Sussex County Council, the Police, Health and sports Services and the community and voluntary sector. Working together we are all committed to ensuring Horsham District remains a great area to live and work.
- Senior management communicates with staff by means of regular cascade meetings organised by the Senior Leadership Team: Director's meetings; Team meetings; Chief Executive Talks; the "Council Matters" publication; weekly SLT feedback and update messages on the Staff Intranet.
- Consultation takes place with Parish Councils and other Voluntary and Community groups throughout the District to ensure effective provision of community engagement activities. These groups help the Council to assess the priorities of different sections of the community that have different needs.

C: Defining Outcomes; sustainable, economic, social and environmental benefits.

- The Corporate Plan for the period 2016-19 which is published on the Council's website identifies key priorities for the Council.
- Departmental Service Plans have been put in place in order to deliver the objectives of the Corporate Plan.
- The Council ensures objectives are deliverable by producing a Medium Term Financial Strategy and detailed financial budget plans.
- Progress against the Council's aims and objectives is monitored by means of its performance management framework and set of detailed performance management indicators.
- The Council Identifies and manages any corporate and departmental risks to achieving its objectives through its risk management process and issues regular reports to senior management and Members.
- Value for money is driven through the Council's Corporate Procurement Code.
- Information relating to Council plans and initiatives is published via its website and the Horsham District news magazine.

D: Determining and planning interventions; optimising achievement of intended outcomes.

- The Medium Term Financial Strategy is updated at least twice a year and takes into account changes in the financial outlook. It is used as a basis for the annual budget setting process in which all Service Managers reconsider their departmental budgets. The Annual Budget and Council Tax rate are approved by full Council before the commencement of each financial year.
- Progress against the budget is reviewed on a monthly basis
- Key performance targets for each service area are set and progress against these is monitored regularly.
- The Council is investigating alternative models of service delivery to improve efficiency whilst meeting the needs of customers.
- The Council is working with Community and Voluntary sector partners to develop projects and deliver efficient and effective services.
- A review of the Council's IT Strategy is taking place to ensure service delivery is supported efficiently and flexibly.
- Benchmarking against others provides information that assists the Council to design services that are fit for purpose by looking at options to improve delivery.

F: Managing risks; managing performance; robust internal control; managing data; strong public financial management.

- Decision making protocols are set out in the Council's Constitution.
- Agendas and minutes of Council/Committee meetings are published on the Council's website and include details of decisions taken.
- The Overview and Scrutiny Committee reviews the Council's decision making processes and monitors the internal and external delivery of services.
- Budget monitoring processes are in place and a summary of the Council's financial position is reported to senior management monthly and to Members quarterly.
- The Council has an established Risk Management Strategy and embedded Risk Management processes. Corporate and Departmental risks are formally reviewed quarterly.
- The Internal Audit Section reports to the Audit Committee. Its work is planned to ensure there are robust systems of internal control in place to mitigate risks and provide assurance to senior management and Members.
- The Audit Committee meets three times a year to review the effectiveness of the control environment and risk management framework.
- A Corporate Governance Group has been introduced to oversee the Council's Governance arrangements.
- A complaints procedure is published on the Council's website. Quarterly monitoring reports are submitted to senior management and Members.
- The Council has a suite of policies covering information and data security and guidance is available for all staff on the Council's Intranet.

E: Developing the capacity of the entity through its leadership and other individuals.

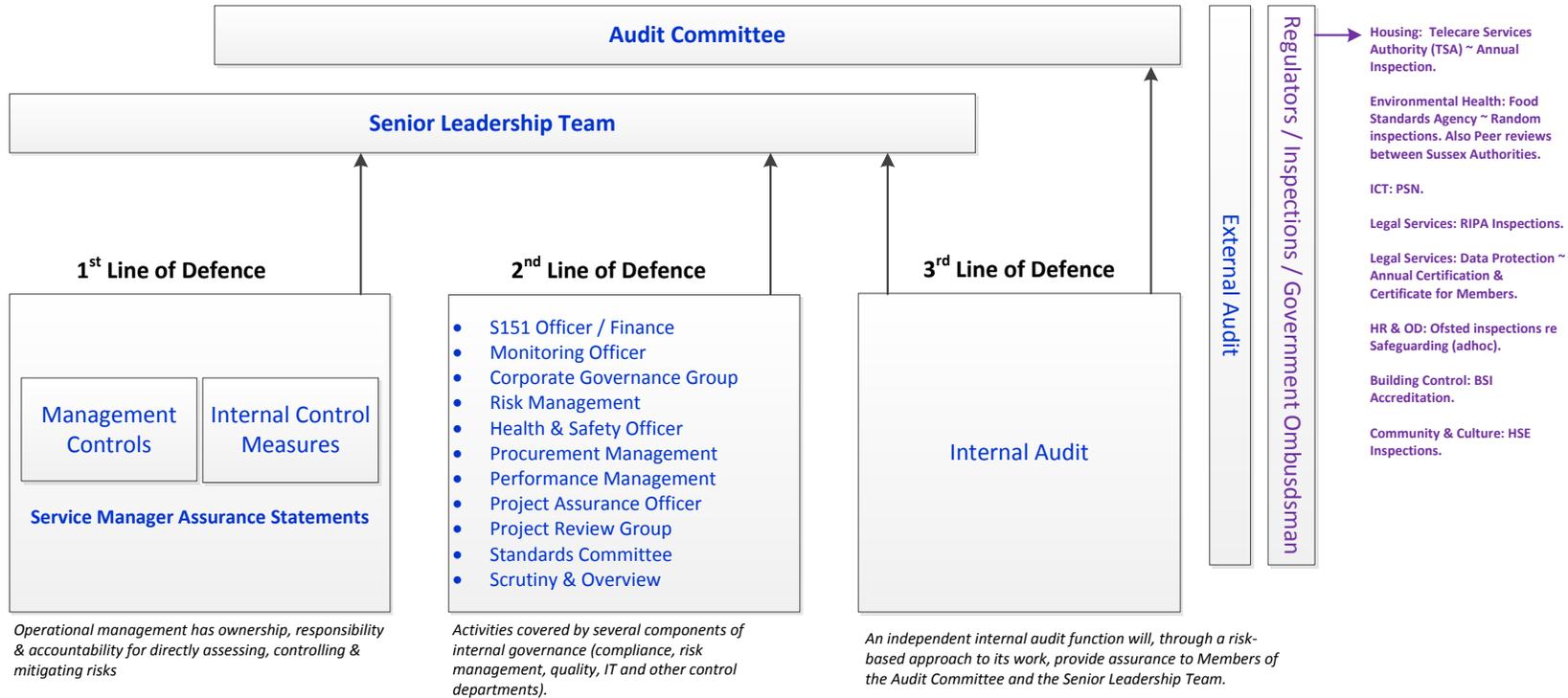
- The Constitution sets out how the Council operates; how decisions are made and which Codes of Conduct are followed. The roles of Members are clearly set out and a Member/Officer protocol is included.
- A Scheme of Delegation has been established that determines the levels at which decisions are taken.
- Detailed regulations (for example Financial Regulations and Contract Standing Orders) have been established which officers must follow when undertaking their roles.
- A performance management framework monitors employees' performance through the annual performance appraisal system and helps to aid workforce planning. The process also identifies an individual's training needs.
- The Standards Committee deals with issues relating to Member performance.
- Partnership agreements are in place for each of the Council's strategic partnerships and Joint Management Boards meet regularly to monitor the agreements.
- A health and wellbeing programme is available to all employees.
- An induction training programme is in place for both Members and employees.
- Regular Managers' conferences enable managers to meet to consider current issues affecting the Council and to work together to identify solutions.

G: Good practice in transparency, reporting and audit to deliver effective accountability.

- All committee agendas, papers and minutes are available to the public on the Council's website (and in hard copy on request from the Council's offices).
- The Council publishes its Audited Annual Accounts and Annual Governance Statement including an action plan for improvement for any areas of concern.
- All external audit reports are published and corrective action is taken to address any issues highlighted as necessary.
- The Council has an effective Internal Audit section which reports to the Audit Committee. The work of Internal Audit is planned to ensure there are robust systems of internal control in place to mitigate risks and provide assurance to Members. Progress to implement agreed recommendations for improvement in control processes is monitored and reported to Members.
- Partnership arrangements are effectively monitored by Partnership Boards.

Appendix C: HDC Governance Assurance Framework

ASSURANCE FRAMEWORK



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Assurance Framework Documentation

- | | | |
|---|--|--|
| <ul style="list-style-type: none"> • Constitution • Code of Conduct • Complaints Procedure • Equalities Scheme • Service Manager Assurance Statements • Communications Strategy • Financial Policies & Procedures • Risk Management Strategy & Toolkit • Risk Registers • Performance Framework | <ul style="list-style-type: none"> • Employee Policies • Pay Policy • Anti-Fraud & Corruption Policy • Whistleblowing Policy • Annual Internal Audit Report & Opinion • Statement of Accounts • Annual Audit Letters from EY • Annual Complaints Report • Report of Local Government Ombudsman • Results of External Inspections | <ul style="list-style-type: none"> • Corporate Plan & Service Plan • MTFS & Budget • Money Laundering Policy • Partnership Agreements / SLAs • Treasury Management & Investment Strategy • Procurement Code • Values & Behaviours |
|---|--|--|

APPENDIX D: ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2017/18

| No. | Area for Improvement | Actions | Responsible Officer | Outcomes |
|-----|---|---|---------------------------------|---|
| | Governance related training is needed for officers. | A programme of regular governance training will be developed (e.g. health & safety, anti-fraud, information and data security). This is being incorporated into HDC's new online appraisals and training system. | Director of Corporate Resources | 31/03/18 Complete |
| | Improvement in ICT Disaster recovery arrangements | <p>To complete the Cloud Transition Project – part of the long term ICT Disaster Recovery Strategy, by 2019, in collaboration with Mid Sussex DC and Adur & Worthing.</p> <p>To put together a fully documented recovery plan to identify what systems will need to be operational in what timescales, and what Technology Services will need to do to bring them back.</p> <p>HDC's warm site will be located at the Hop Oast Depot from the end of June 2017 as this site will have a fully operational 100mb WAN link.</p> | Head of Technology Services | <p>By 2019 In progress</p> <p>30/06/17 In progress</p> <p>30/06/17 Complete</p> |
| | Improvement in daily and monthly bank reconciliation process. | Re-design of bank reconciliation process when the new Financial Management System is introduced during 2017/18 | Head of Finance | 30/09/17 Completed |
| | HDC's Overview and Scrutiny function. | Complete a review of the Overview and Scrutiny function. Paper and recommendations to the Overview and Scrutiny meeting 05/06/17 | | 30/06/17 Complete |

APPENDIX E: ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2018/19

| No. | Area for Improvement | Actions | Responsible Officer | Target Date |
|------------|--|---|--------------------------------------|--------------------|
| 1 | Information security policies | Review and rewrite information security policies | Head of Technology Services | 31/5/18 |
| 2 | S151 and Monitoring Officer sign off of decision reports | Roll out of tracking and sign off through Modern.gov | Democratic Services Manager | 30/6/18 |
| 3 | Officer/Member protocol | Reintroduce an officer/member protocol | Head of Legal & Democratic Services | 30/6/18 |
| 4 | Revenues and Benefits disaster recovery | Move of all Horsham and Mid Sussex based revenues and benefits systems to Milton Keynes Council | Head of Revenues and Benefits (LGSS) | 31/7/18 |
| 5 | Verto Project Management system | Review and redesign of the Verto Project Management system | Project Assurance Manager | 31/7/18 |
| 6 | Reliability of power supply at the depot | Purchase and implementation of a generator | Head of Property Services | 31/7/18 |
| 7 | Horsham in-house technology disaster recovery plan | Complete the DR plan for the in house technology | Head of Technology Services | 31/3/19 |
| 8 | Legal Services' case management & disaster recovery | Implement the new Legal Services Case Management System | Legal Services Business Manager | 30/9/18 |
| 9 | Plan for major power outage | Prepare a plan for dealing with this type of emergency | Well-being/ Community Safety Manager | 30/9/18 |

| | | | | |
|----|--|---|-----------------------------|----------|
| 10 | Contract for the production of the Horsham Pantomime | Review of the arrangements for the Horsham Pantomime to ensure financial probity, value for money and transparency. | Head of Community Services | 30/11/18 |
| 11 | Software and technology support contracts | Review all software and technology support contracts ensuring their value for money and fitness for purpose | Head of Technology Services | 31/12/18 |
| 12 | Access to HR records in a civil emergency, disaster recovery of HR and budgetary control of salaries information | Implementation of the HR module of Technology One (Cloud based finance system) | Head of HR and OD | 31/12/18 |
| 13 | Mandatory governance training courses | Ensure all mandated governance courses are complete by the deadlines | Heads of Service | 31/3/19 |
| 14 | Improve disaster recovery and reliability of email systems | Roll out of office 365 | Head of Technology Services | 31/12/18 |

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Report to Audit Committee

12 July 2018

By the Director of Corporate Resources

DECISION REQUIRED



Not Exempt

Statement of Accounts 2017/18

Executive summary

It is a legal requirement of the Accounts and Audit (England) Regulations 2017 that the Statement of Accounts is approved by a resolution of the Council or the relevant Committee of the Council by 31 July 2018. The Scheme of Delegation to Committees within the Council constitution (Part 3.2) delegates the responsibility to the Audit Committee to consider and approve the Council's Statement of Accounts.

The Statement of Accounts have been subject to external audit by Ernst and Young LLP and the Audit Results Report is also on the agenda for this meeting.

Recommendations

That the Committee is recommended:

- i) To approve the 2017/18 Statement of Accounts

Reasons for recommendations

- i) It is a requirement of the Accounts and Audit (England) Regulations 2017 that the Statement of Accounts are approved by 31 July 2018.
- ii) The external auditors plan to issue an unqualified audit opinion on the Statement of Accounts for 2017/18.

Background papers: none

Wards affected: All

Contact: Sam Wells, Corporate Accountant, 01403 215309

Dominic Bradley, Head of Finance, 01403 215302

Background Information

1 Introduction and background

- 1.1 It is a requirement of the Accounts and Audit (England) Regulations 2017 that the statutory Statement of Accounts are approved by a resolution of the Council or the relevant Committee of the Council by 31 July 2018. Under The Scheme of Delegation to Committees within Part 3.2 of the Council constitution, the matter of considering and approving the Statement of Accounts has been delegated to the Audit Committee. This report provides background information to the financial statements.
- 1.2 The Statement of Accounts have been prepared following the requirements of the CIPFA Code of Practice on Local Authority Accounting 2017/18 which are based on International Financial Reporting Standards. The Statement of Accounts have been subject to audit by Ernst and Young LLP who intend to issue an unqualified opinion.

2 Relevant Council policy

- 2.1 The Council is required to produce financial statements under the Accounts and Audit (England) Regulations 2017.

3 Details

- 3.1 The audit identified five amendments in the draft financial statements which have been adjusted in the Statement of Accounts 2017/18 that are attached to this report. The audit results report sets out the significant issues to bring to your attention.
- 3.2 The number of amendments is higher than previous years, but is not significant in number in the context of a new financial system during the year and being without a systems accountant for key periods. The Finance team has also reduced in size.

4 Next steps

- 4.1 The committee is asked to approve the Statement of Accounts 2017/18.

5 Outcome of consultations

- 5.1 No consultations were required. Audit Committee Members were briefed on the updated Statement of Accounts on 26 June 2018.

6 Other courses of action considered but rejected

- 6.1 Not applicable.

7 Resource and legal consequences

- 7.1 There are no direct resource or legal consequences arising from this report.

8 Risk assessment

- 8.1 There are reputational risks to the Council if the Statement of Accounts are not approved by the statutory deadline of 31 July 2018.

9 Other considerations

- 9.1 The recommended actions of this report have no impact on Crime & Disorder; Human Rights or Equality & Diversity and Sustainability.



**Horsham
District
Council**

Statement of Accounts 2017/18

Audited

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Narrative Statement

INTRODUCTION

Welcome to Horsham District Council's Statement of Accounts for 2017/18. The Council's finances are complex and the Council is required by law to include a large amount of detail and to present much of this in a prescribed format. Every effort has been made to make this report as understandable as possible. This Narrative Report to the Statement of Accounts presents an overview of the Council's accounts for the financial year 1 April 2017 to 31 March 2018 and aims to help readers understand the most significant issues reported in the accounts and how they relate to the Council's overall business. It includes comment on the financial performance and economy, efficiency and effectiveness in the use of resources over the financial year and in the context of the Medium Term Financial Strategy.

BASIS OF PREPARATION

The Accounts 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 2017/18.

References to material and materiality relates to the significance of transactions, balances and errors. Financial information is material if its omission or misstatement could influence the users of the accounts.

ORGANISATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

Horsham District is the second largest local authority district in West Sussex which covers a large area of open countryside, small towns and villages. There are 32 parishes each with its own parish council. The population is around 133,000 people with over 45,000 of these living in Horsham and the immediate area. Billingshurst, Southwater, Henfield, Pulborough, Storrington and Steyning are the other main centres of population with the remaining residents living in the surrounding parishes.

There is a strong administrative and service sector presence in the district alongside a retail sector with more than 4,000 commercial premise based businesses plus a number of small businesses run from residential properties. However the value of the rateable value listing ended 2017/18 at £112.85m which was £1.16m lower than at the start of the year. Whilst there have been additions to the list during the year, significant office and retail space demolitions have affected the list, some of which are being redeveloped, although some are being converted into housing. The 2010 list has similarly been affected ending the year at £101.95m, which was £2.08m lower than it started at £104.02m. The 2010 list has additionally been affected by the resolution of appeals for GP surgeries and health centres.

Central Government's revenue funding in the form of Revenue Support Grant (RSG) and Business Rates Spending baseline fell by £640k from 2016/17 levels, which was just over a 22 percent fall, softened by £134k of transitional RSG relief. In the light of continued financial pressure from government cuts and the impact of new legislation the Council has been focusing on strengthening resilience in its operations and policies including financial and staffing resilience. The Council's excellent record of sound financial management puts the Council in a strong position to withstand the financial challenges it faces in the future.

GOVERNANCE

The District Council has adopted the Cabinet model of governance with a Leader, Deputy Leader and Cabinet Members each with responsibility for one aspect of the Corporate 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. The whole Council approves the Council's expenditure plan and the budget, as part of the process of setting the Council Tax each year. The Council has 44 elected Councillors.

The Council has a three year Corporate Plan 2016-19 that sets out its aims under four headings:

- **Economy**– improve and support the local economy
- **Efficiency**– delivering great value services
- **Communities** –support our communities
- **Environment** – manage our natural and built environment

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. There have not been any significant changes in, or issues around, governance arrangements in the year.

PERFORMANCE DURING 2017/18

The Council monitors financial and non-financial performance indicators on a monthly basis. It measures and publishes its performance using a set of 47 key performance indicators which cover many of the Council's key services. The final figures for the 2017/18 year are reported to Overview and Scrutiny Committee (on 23 July 2018). The Council also reviews delivery of the Corporate Plan objectives at this meeting. There has been a high level of achievement in the Corporate Plan for the 2017/18 period.

These indicators show positive performance across most areas; the processing of major and other planning applications; complaints about our services have reduced and compliments increased; sickness levels falling to below 7 days per FTE and the recycling rate has improved.

Three performance indicators were classed as outside the target range.

- The speed of processing new housing benefit and Council tax benefit claims is above target, due to an increased level of quality control checking to improve quality.
- Planning fee income is below budget. No large applications have been received. The Horsham District Planning Framework has also resulted in less speculative applications.
- The percentage contamination rate of recycling is currently higher than the 6% target. Management are keeping a close watch on performance following the changes to collection routes and processes from February 2018.

Whilst close to target, collection levels of business rates and council tax remain below the West-Sussex average.

Employees

The number of permanent employees has fallen to 397.8 FTE at 31 March 2018 (417.2 at 31 March 2017). This partly reflects the end of the Census ICT partnership which Horsham hosted where some staff TUPEd back to the two partnering local authorities. There were 6.8 sickness days per FTE employee, which compares to 7 days at 31 March 2017 and is below the 8 day target. No trends needing intervention were identified. The Council publishes equality and diversity data such as the gender pay gap, as well as other HR and Trade Union reporting data, made available on the website at:

<https://www.horsham.gov.uk/communitysupport/community-support/equality,-diversity,-human-rights>

Local taxpayers

During the year, the Council collected £97.17m in Council Tax on behalf of West Sussex County Council, the Sussex Police and Crime Commissioner and Horsham District Council and its towns and parishes. Around 91% of this was passed on to the other authorities. The collection rate for the year was 98.83% of the total amount due which was an improvement on 2016/17 (98.74%) and slightly over the unchanged target of 98.8%, with the aim of collecting the majority of the remainder in the first few months of 2018/19.

Provisions and write-offs

An allowance has been made for Council Taxpayers' Bad and Doubtful Debts using an analysis of the recovery position of the debts outstanding as at 31 March 2018. A total of £2.11m (£2.31m in 2016/17) has been allowed against debts of £3.38m (£3.54m in 2016/17) outstanding as at 31 March 2018. The Council's share of the allowance is £260k (£281k in 2016/17).

An allowance has also been made for Business Ratepayers' Bad and Doubtful Debts using an analysis of the recovery position of the debts outstanding as at 31 March 2018. A total of £0.99m (£1.54m in 2016/17) has been allowed against debts of £1.89m (£2.81m in 2016/17) outstanding as at 31 March 2018. The Council's share of the allowance is £438k (£617k in 2016/17).

In the 2017/18, there has been £1.056m of uncollectable amounts written off (£586k in 2016/17).

A provision for appeals made against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2018 has been made of £4.61m (£5.32m in 2016/17). The Council's share (40%) is £1.84m (£2.13m in 2016/17), as detailed in the Provisions note 18.

BUDGET 2017/18

In 2017/18, the total expenditure incurred by the Council was £77.8m; this is excluding non-cash costs charged to the services such as depreciation, impairment costs and pension adjustments. Of this, the Council pays around 50% in housing benefit to many residents in the district on low incomes. This money is repaid by the Government as a subsidy.

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.

The Council approved a net General Fund Revenue budget for 2017/18 of £11.86m at the formal meeting on 15 February 2017.

| | £000 |
|---------------------------------|---------------|
| Net expenditure | 11,862 |
| Funded by: | |
| New Homes Bonus Grant | 700 |
| Council Tax | 8,661 |
| Revenue Support Grant | 149 |
| Transitional Grant | 134 |
| Business Rates baseline funding | 1,916 |
| Additional Business rates | 200 |
| Payment to parishes | (10) |
| Collection fund surplus | 182 |
| Total funding | 11,932 |
| (Surplus) / Deficit | (70) |

CORE STATEMENTS

Comprehensive Income and Expenditure Statement - This statement shows the accounting cost in the year of providing Services in accordance with the requirements of International Financial Reporting Standards (IFRS) as applied by the Code of Practice on Local Authority Accounting in 2017/18, rather than the amount to be funded from taxation.

Movement in Reserves Statement – This statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return the amounts chargeable to council tax for the year.

Balance Sheet – The Balance Sheet sets out the financial position of the Council as at 31 March 2018 and consolidates the individual balance sheets of the General Fund and Collection Fund. It shows the value as at the year-end date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Cash flow statement – This statement shows the changes in cash and cash equivalents of the Council during the reporting period. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council

REVENUE OUTTURN FOR 2017/18

The Council monitors its expenditure and income against budget on a monthly basis, regularly reporting to Cabinet and to Overview and Scrutiny Committee on a quarterly basis. The 2017/18 year-end revenue and capital outturn is reported to both Cabinet and O&S Committee in July 2018.

The variance against original budget was reported as a surplus of £0.621m. There was £0.158m of revenue budgets, intended for projects in 2017/18, which were unspent and carried forward to 2018/19. After allowing for the budgeted transfers to reserves and other transfers to earmarked reserves, the outturn surplus has reduced the in-year deficit on the General Fund to £2.178m as shown below.

| | £000 |
|--|----------------|
| Outturn variance reported | (621) |
| Budgets brought forward from 2016/17 (including repairs and renewals) | 88 |
| Budgets carried forward to 2018/19 | (158) |
| Underspend of MRP against budget | (26) |
| Other adjustments | <u>(1,461)</u> |
| Surplus on General Fund (after transfers to earmarked reserves) | (2,178) |

The General Fund shows a net surplus of £2.178m on expenditure and income transactions in the year. The Comprehensive Income and Expenditure Statement shows a surplus for the year of £13.152m, comprising a deficit on the provision of services of £676k and a surplus of £13.82m on the revaluation of non-current and financial assets and on the actuarial value of pension assets and liabilities.

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. The surplus for the year represents the total amount by which the Council's overall net worth has increased over the year as shown in the Balance Sheet.

In addition to the net General Fund surplus of £2.178m and the net revenue surplus on other earmarked reserves, it also includes the following major items:

- i) **A charge for the depreciation and revaluation/impairment of assets.** The depreciation charge of £2.007m is a charge for the use of assets that reflects the notional consumption of assets during the year and gains of £6.019m have been credited on the revaluation of assets.
- ii) **A charge for revenue expenditure funded from capital under statute (REFCUS).** A charge of £1.098m 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 £2.757m 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 credit for pensions** of £1.778m 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 30.
- v) **A gain on the disposal of assets** of £1.241m. When an asset is disposed of, the difference between the sale proceeds and the carrying value of the asset must be charged or credited to the Comprehensive Income and Expenditure Statement.
- vi) **Other technical adjustments** relating to financing costs, council tax, business rates and officer remuneration.

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 2017/18 the amount set aside was £0.924m (2016/17 £0.837m). This is a charge to the General Fund which is not shown in the Comprehensive Income and Expenditure Statement.

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.

The table below summarises these accounting adjustments:-

| | £000 |
|--|----------------|
| Surplus on General Fund | (2,178) |
| Transfers (to)/from earmarked reserves | (4,040) |
| Accounting adjustments | |
| Charge for depreciation | 2,007 |
| Revaluation of non-current assets | 6,019 |
| Revenue expenditure charged to capital | 1,098 |
| Capital grant income | (2,757) |
| IAS19 pension costs | 1,778 |
| Gain/loss on disposal of assets | (1,241) |
| Minimum Revenue Provision | (924) |
| Share of in year surplus on the Collection Fund | 868 |
| Other technical adjustments | <u>46</u> |
| Deficit on provision of services per CIES | 676 |

CAPITAL EXPENDITURE

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.

Against a final capital plan of £46.1m in 2017/18, the Council's capital spending for the year was £28m across a range of 70 capital schemes. The majority of expenditure was spent in the following key areas:

- £11m on The Forum retail units as an investment property
- £4m Forum car park as an operational asset
- £5.5m building the Bridge; a £12.3m Leisure Centre in Broadbridge Heath due to open in Autumn 2018
- £3m on replacement waste collection vehicles
- £2.4m was spent completing the redevelopment of the £4.5m Hop Oast depot.

Where appropriate, unspent capital budget has been re-profiled into 2018/19 and later years including the following larger schemes:

- £3m of the commercial property investment fund that wasn't spent due to the one-off purchase of the Forum retail units.
- £5m of the Broadbridge Heath leisure centre budget, following some delays before building work started; lengthy discussions with the housing developer over the land for the MUGA's (Multi-Use Games Areas) and access arrangements, and value engineering parts of the specification and agreeing the final contract and budget with the building contractor.
- £2m of temporary accommodation in Billingshurst and Horsham, following the re-design of the scope to increase the number of units across the two sites, improving the viability of the £3m project. A building contractor has been appointed.

FINANCIAL POSITION AT 31 MARCH 2018

The net worth of the District Council is shown in the Balance Sheet. It has increased by £13.8m from 31 March 2017. This is a result of an increase in the Council's unusable reserves of £15.9m, which includes accounting adjustments related to non-current assets and pensions.

Property, Plant and Equipment value has increased by £12.7m to £105.1m. Investment Property value has risen by £11.1m to £46.6m which includes the purchase of the Forum during the year.

The net pension asset of £2.045m from 31 March 2017 has improved by £8.268m to a net pension surplus of £10.3m at 31 March 2018, reflecting changes in the financial assumptions used by the Actuary and fluctuations in the values of assets and liabilities. This position is a snapshot of the actuarial assessment at the Balance Sheet date and does not mean that the pension fund will remain in surplus in the future. Asset values of the fund can decrease and the liabilities can also significantly increase in the future. A full triennial valuation of the Fund was undertaken at 31 March 2016 and revised employer contribution rates have been agreed for the three years from 1 April 2017, which in 2017/18 was a contribution of 20.5%. The Council relies on and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation. Full details of the movement in the liability are shown in note 30.

The level of usable Reserves decreased by just under £2.1m to £28.4m during 2017/18; largely as a result of spending capital receipts. The Council's level of General Reserves held at 31 March 2018 stands at £20.9m. Given our intention to become financially independent in the medium term, our reserves will enable us to invest in transformation. A policy was developed during 2017 for the New Homes Bonus reserve to strengthen the Council's ability to generate income from appropriate investments in order to receive income to support future service delivery and secure the delivery of infrastructure to serve the needs of the district's residents. Further details on reserves can be found in note 19.

The Council has a single £4m loan which is repayable over 10 years until 31 March 2019 at an interest rate of 3.38%. No new long term borrowing was entered into in 2017/18, although some short term temporary borrowing was undertaken.

FINANCIAL OUTLOOK INCLUDING STRATEGY AND RESOURCE ALLOCATION

Despite ongoing financial pressures from the reduction in central government funding, the Council has managed to set a balanced budget for 2017/18 and has set a small surplus budget in the forthcoming years of 2018/19 and 2019/20. It has done this in 2018/19 through internal efficiencies and income generation such as increasing the charge for its green waste service and an inflationary increase in Council Tax.

The current transformation programme running to the end of March 2020 is called "Future Horsham" and will deliver a stronger organisation which will be more productive and better equipped to serve customers. It will also help to protect front-line services whilst ensuring that the Council has a strong and responsive support services.

As well as identifying around £1.4m of transformational efficiencies from self-service, changing ICT technology, contract reviews and redesign of business processes, the Council has also identified around £1.8m of new income sources and additional income expected from a growth in the number of users. This includes additional spend of up to £15m over five years on further property investments to generate revenue income returns.

Whilst there is a cost in implementing the transformation for which £0.5m each year is envisaged, the transformation will help protect the level of general fund reserves and keep them above the £6m minimum level of general reserves that Members agreed upon in 2012. The planned budget surpluses in 2018/19 and 2019/20 will help fund this.

Further ahead, the Medium Term Financial Strategy has been revisited and deficits are forecast through to 2021/22 mainly due to the high level of uncertainty around the future of business rates. The Council has already started work on identifying ideas to ensure that it can continue its business transformation journey into the 2020s to meet the demands and expectations of its customers in the face of financial and demographic pressures. The Council will continue to review potential actions that it could take to help pay towards further transformation and / or income generating ideas to help work towards balancing the forecast £2.3m deficit in 2021/22.

The Director of Corporate Resources regularly reports to the Council on the basis of the latest information available, so that the risks and opportunities can be considered and evaluated.

The Council's cash flow remains healthy. At the current year-end, the Council has £5.5m of cash and cash equivalents. The size of the deficit in 2021/22 is exceeded by the level of general reserves. The value of investments including cash and cash equivalents ended the year at £37.4m.

Over the last two years, the Council has made some significant decisions which will affect the future use of the Council's resources and will impact on the financial position of its Balance Sheet. The following significant capital expenditure has either been completed in 2017/18 or planned to complete over the next twelve months:

- Broadbridge Heath Leisure Centre: In November 2015, the Council agreed a £12.3m capital budget for the redevelopment of this site, with the aim of opening the new facility in Autumn 2018. Construction work started in summer 2017.
- Hop Oast (Horsham) depot redevelopment: The depots in Horsham and Storrington were at the end of their physical lives and the Council took the decision to invest £4.55m in consolidating the two sites into one up to date facility at Hop Oast to help address the needs of the increased household numbers and service demand. The new depot opened in June 2017.
- Temporary accommodation: The Council has spent £2.9m on the purchase of seventeen apartments in Horsham town used as affordable short stay temporary accommodation for homeless households. The decision supports the statutory duty the Council has to house the homeless and it reduces the need to place households in bed and breakfast accommodation. These apartments opened in June 2017.
- Temporary accommodation: A further £3m will be spent in 2018/19 on seventeen more residential units across two sites of surplus Council owned land in Horsham and Billingshurst that will again be used as affordable short stay temporary accommodation for homeless households. The apartments are due to open in Summer 2019.
- Waste collection vehicles: In 2017/18, the Council procured 19 rear loading waste vehicles, which arrived at Hop Oast depot in December 2017 prior to the roll changes in waste collection service that commenced in February 2018. These vehicles replaced the waste collection vehicles which were purchased in 2009 and 2010 which had reached the end of their useful life.

RISKS AND OPPORTUNITIES

The medium term financial strategy takes a prudent but balanced view of the financial future, but continuing to take further action is also important to also help mitigate the risks that the Council faces over the medium term. These risks are set out in summary below and include:

- changes to organisation processes or ICT infrastructure slow the achievement of strategic objectives
- late delivery of savings / income, or can't be delivered to the size / scale envisaged
- income may be affected by external factors such as a recession probably due towards the end of the decade
- significant economic uncertainty from world events and especially beyond the current settlement period (2020)
- further or steeper funding cuts / to help government meet their deficit reductions targets
- legislation forcing local government to pick up additional responsibilities that we don't yet know about
- growth, from changing local factors for which we have no control, such as the new cinema coming to Horsham and the impact that this might have on the income at the Capitol for example

The work under the Future Horsham programme has identified several medium and longer term opportunities that could be developed to mitigate these risks. The Council will also continue to pursue opportunities that deliver savings and / or generate income whilst retaining a good quality of service delivery.

FURTHER INFORMATION

Interested members of the public have a statutory right to inspect the accounts from 1 June 2017 to 12 July 2017. The notice was placed on the Horsham District Council website, under the Finance and Performance Service - Statement of Accounts.

Further information on the contents of this publication can be obtained from the Director of Corporate Resources Jane Eaton (Jane.Eaton@Horsham.gov.uk) or the Head of Finance, Dominic Bradley (Dominic.Bradley@Horsham.gov.uk), at Horsham District Council, Parkside, Chart Way, Horsham, West Sussex RH12 1RL.

It is our intention to be open with the information that we hold and we encourage local stakeholder enquiries.

Statement of Responsibility 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.

CERTIFICATION OF THE ACCOUNTS

I hereby certify that the Statement of Accounts 2017/18 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 March 2018.

Jane Eaton C.P.F.A.
Director of Corporate Resources
xx July 2018

APPROVAL OF THE ACCOUNTS

I hereby certify that the Statement of Accounts 2017/18 have been approved by the Council's Audit Committee under delegated powers at a meeting held on 12 July 2018.

Councillor Stuart Ritchie
Chairman of the Audit Committee
xx July 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HORSHAM DISTRICT COUNCIL

Opinion on the Authority's financial statements

We have audited the financial statements of Horsham District Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- and the related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Horsham District Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the narrative statement set out on pages 2 to 8, other than the financial statements and our auditor's report thereon. The Director of Corporate Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Horsham District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Director of Corporate Resources

As explained more fully in the Statement of the Director of Corporate Resources' Responsibilities set out on page 9, the Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the C&AG in November 2017, as to whether the Horsham District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Horsham District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Horsham District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Horsham District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

Paul King
for and on behalf of Ernst & Young LLP, Appointed Auditor
Southampton
xx July 2018

The maintenance and integrity of the Horsham District Council website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Movement in Reserves Statement

| | General Fund Reserves | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves | Note |
|---|-----------------------------|--------------------------------|--------------------------------|-----------------------------|----------------------|--------------------------------|------|
| | £000 | £000 | £000 | £000 | £000 | £000 | |
| Balance at 1 April 2016 | (17,333) | (5,755) | (3,504) | (26,592) | (100,306) | (126,898) | |
| Movement in reserves during 2016/17: | | | | | | | |
| (Surplus) or deficit on provision of services | (8,244) | 0 | 0 | (8,244) | 0 | (8,244) | 7 |
| Other Comprehensive Expenditure and Income | 0 | 0 | 0 | 0 | (11,044) | (11,044) | |
| Total Comprehensive Expenditure and Income | (8,244) | 0 | 0 | (8,244) | (11,044) | (19,288) | |
| Adjustments between accounting basis & funding basis under regulations (restated) | 5,583 | 473 | (1,777) | 4,279 | (4,279) | 0 | 7,11 |
| Increase/Decrease (movement) in Year | (2,661) | 473 | (1,777) | (3,965) | (15,323) | (19,288) | |
| Balance at 31 March 2017 carried forward | (19,994) | (5,282) | (5,281) | (30,557) | (115,629) | (146,186) | |
| Movement in reserves during 2017/18: | | | | | | | |
| (Surplus) or deficit on provision of services | 676 | 0 | 0 | 676 | 0 | 676 | 7 |
| Other Comprehensive Expenditure and Income | 0 | 0 | 0 | 0 | (14,503) | (14,503) | |
| Total Comprehensive Expenditure and Income | 676 | 0 | 0 | 676 | (14,503) | (13,827) | |
| Adjustments between accounting basis & funding basis under regulations | (1,604) | 4,249 | (1,170) | 1,473 | (1,473) | 0 | 7,11 |
| Increase/Decrease (movement) in Year | (928) | 4,249 | (1,170) | 2,150 | (15,978) | (13,827) | |
| Balance at 31 March 2018 carried forward | (20,922) | (1,033) | (6,451) | (28,406) | (131,607) | (160,013) | |

Comprehensive Income and Expenditure Statement

| 2016/17 | | | 2017/18 | | | Note |
|-------------------|-----------------|-----------------|-------------------|-----------------|-----------------|------|
| Gross Expenditure | Gross Income | Net Expenditure | Gross Expenditure | Gross Income | Net Expenditure | |
| £000 | £000 | £000 | £000 | £000 | £000 | |
| 2,278 | (41) | 2,237 | 2,586 | (638) | 1,948 | |
| 5,303 | (3,568) | 1,735 | 8,619 | (3,568) | 5,051 | |
| 1,309 | (21) | 1,288 | 1,306 | (18) | 1,288 | |
| 398 | (4) | 394 | 390 | (8) | 382 | |
| 1,840 | (773) | 1,067 | 1,814 | (796) | 1,018 | |
| 2,568 | (179) | 2,389 | 2,189 | (1) | 2,188 | |
| 1,645 | (192) | 1,453 | 1,545 | (126) | 1,419 | |
| 1,985 | (4,213) | (2,228) | 2,726 | (4,629) | (1,903) | |
| 5,039 | (2,920) | 2,119 | 4,672 | (2,621) | 2,051 | |
| 2,199 | (211) | 1,988 | 1,613 | (146) | 1,467 | |
| 8,773 | (4,042) | 4,731 | 13,025 | (4,562) | 8,463 | |
| 33,262 | (32,687) | 575 | 33,362 | (32,739) | 623 | |
| 66,599 | (48,851) | 17,748 | 73,847 | (49,852) | 23,995 | 7 |
| | | 1,359 | | | 1,659 | 8 |
| | | (3,527) | | | (2,829) | 9 |
| | | (23,824) | | | (22,149) | 10 |
| | | (8,244) | | | 676 | 7 |
| | | | | | | |
| | | | | | | |
| | | (6,349) | | | (4,857) | 12 |
| | | (4,659) | | | (10,046) | 30 |
| | | (35) | | | 399 | |
| | | (11,043) | | | (14,503) | |
| | | (19,287) | | | (13,827) | |

Balance Sheet

| <u>31.03.2017</u> | | <u>31.03.2018</u> | Note |
|-------------------|--|-------------------|-------|
| £000 | NON-CURRENT ASSETS | | |
| | Property, Plant and Equipment | | |
| 85,033 | - Other Land and Buildings | 94,808 | 12 |
| 1,531 | - Vehicles, Plant, Furniture & Equipment | 4,329 | 12 |
| 5,796 | - Assets under construction/Awaiting Development | 5,975 | 12 |
| 531 | Heritage Assets | 531 | |
| 35,461 | Investment Property | 46,600 | 13 |
| 11 | Intangible Assets | 8 | |
| 484 | Assets Held for Sale | 0 | |
| 2,045 | Pension Asset | 10,313 | 30 |
| 322 | Long-term Debtors | 296 | |
| 15,806 | Long-term Investments | 17,632 | 14 |
| 147,020 | TOTAL LONG-TERM ASSETS | 180,492 | |
| 29,886 | Short - term Investments | 14,197 | 14 |
| 90 | Inventories | 122 | |
| 5,907 | Short -term Debtors | 6,719 | 16 |
| 4,248 | Cash and Cash Equivalents | 5,537 | 15 |
| 40,131 | CURRENT ASSETS | 26,575 | |
| 0 | Short-term borrowing | (4,000) | 14 |
| (14,961) | Short-term Creditors | (14,344) | 17 |
| (14,961) | CURRENT LIABILITIES | (18,344) | |
| (381) | Provisions | (226) | 18 |
| (2,128) | Provision for Business Rates Appeals | (1,844) | 18 |
| (4,000) | Long-term Borrowing | 0 | |
| | Other Long-term Liabilities | | |
| (7,308) | - S106 Contribution | (10,071) | 18 |
| (627) | - Rent Deposits and Other Balances | (910) | |
| (11,560) | Capital Grants & Receipts in Advance | (15,659) | 18 |
| (26,004) | LONG-TERM LIABILITIES | (28,710) | |
| 146,186 | NET ASSETS | 160,013 | |
| | Usable Reserves | | |
| (19,994) | - Reserves | (20,922) | 19 |
| (5,282) | - Capital Receipts Reserve | (1,033) | 19 |
| (5,281) | - Capital Grants & Contributions Unapplied | (6,452) | 19 |
| | Unusable Reserves | | |
| (29,298) | - Revaluation Reserve | (33,517) | 20 |
| (2,045) | - Pensions Reserve | (10,313) | 20,30 |
| (83,857) | - Capital Adjustment Account | (88,645) | 20 |
| (104) | Financial Instrument Available for Sale Reserve | 295 | 20 |
| (50) | -Financial Instrument Adjustment Account | (26) | |
| (423) | -Collection Fund Adjustment Account | 445 | 20 |
| 148 | -Accumulating Absences Adjustment Account | 155 | |
| (146,186) | TOTAL RESERVES | (160,013) | |

These financial statements replace the unaudited financial statements certified by the Director of Corporate Resources on 31 May 2018

Jane Eaton C.P.F.A Director of Corporate Resources 12 July 2018

Cash Flow Statement

| <u>2016/17</u> | | <u>2017/18</u> | Note |
|----------------|---|----------------|------|
| £000 | | £000 | |
| | <u>Operating activities</u> | | |
| (8,244) | (Surplus) or deficit on provision of services | 676 | 7 |
| (770) | Adjust net surplus or deficit on the provision of services for non- cash movements | (7,689) | 21 |
| 6,128 | Adjust for items in the net deficit on the provision of services that are investing or financing activities | 4,178 | 21 |
| (2,886) | Net cash flows from Operating activities | (2,835) | |
| | <u>Investing activities</u> | | |
| 8,257 | Purchase of property, plant and equipment, investment property and intangible assets | 27,139 | |
| 129,712 | Purchase of short-term and long-term investments | 156,430 | |
| 148 | Other payments for investing activities | 6 | |
| (50) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (645) | |
| (110,500) | Proceeds from short-term and long-term investments | (169,864) | |
| (19,080) | Other receipts from investing activities | (12,468) | |
| 8,487 | Net cash flows from investing activities | 598 | |
| | <u>Financing Activities</u> | | |
| (4,541) | Other receipts from financing activities | 949 | |
| 0 | Other payments for financing activities | 0 | |
| (4,541) | Net cash flows from financing activities | 949 | |
| 1,060 | Net (increase) or decrease in cash and cash equivalents | (1,288) | |
| 5,309 | Cash and cash equivalents at 1 April | 4,249 | 15 |
| 4,249 | Cash and cash equivalents at 31 March | 5,537 | 15 |

Notes to the Core Statements

1 ACCOUNTING POLICIES

GENERAL PRINCIPLES

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 *Framework for the Preparation of Financial Statements*, specifically:

- The qualitative characteristics of financial information
- Relevance
- Reliability
- Comparability
- Understand ability
- 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.

ACCRUALS OF EXPENDITURE AND INCOME

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code. Any sums due to or payable by the Council at the end of each financial year that exceed £5,000 either individually, or as a class of expenditure are brought into account (irrespective of whether cash has been received or payment has been made). The exception to the £5,000 limit exists where the expenditure or part of it is to be recharged to a third party. 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 accrual basis with the Horsham District Council share of income included within the debtors and creditors balances on the Balance Sheet, with the preceding authorities' accounting for their relevant share.

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.

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.

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 Council'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.

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.

MINIMUM REVENUE PROVISION

The Council is not required to raise Council tax to fund depreciation, revaluation and impairment losses or amortisation of non-current assets. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis or as determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (MRP or loans fund principal), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

EMPLOYEE BENEFITS

Officers Emoluments and Senior Officer Remuneration

In line with the Accounts and Audit Regulations 2015, a note disclosing officers' emoluments is required which includes 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 26.

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.

Exit Packages and Termination Costs

The Code requires disclosure of the details of exit packages agreed and the costs within bandings for the financial year with prior year comparatives. Information on termination costs together with prior year comparatives are provided in notes 26 and 27.

Post- Employment Benefits - 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 IAS19 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 economic current costs are based on valuations provided by the Fund's actuaries.

Liabilities are measured on an actuarial basis discounted to present value, using the projected unit method. The discount rate to be used is determined in reference to market yields at balance sheet date of high quality corporate bonds

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

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

Any change in the net pension liability is analysed into six 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.
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Re-measurement of the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions- recognised in Other Comprehensive Income and Expenditure.
- 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.

Discretionary Benefits

The Council provides post-employment benefits which arise from additional service awarded on a discretionary basis. These benefits are unfunded with costs met directly from the Council's revenue account.

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

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.

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. The Council recognises a financial asset or liability in the Balance Sheet when it becomes a party to the contractual provisions of the instrument.

Financial Liabilities

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

For the borrowings that the Council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. The fair value of the borrowing is shown in a note to the accounts and represents what would be paid to transfer the borrowing to another market participant.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables

Loans and receivables are initially measured at fair value. They are subsequently measured at their amortised cost. The income recognised is calculated on the same basis as the charge from a financial liability as described above.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Available-for-Sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

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

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are recognised in the Available-for-Sale Reserve and the gain or loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due will not be made (in the case of fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

GRANTS AND CONTRIBUTIONS

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

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

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 recognised 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.

COLLECTION FUND

The Collection Fund Statement is an agent's statement which reflects the statutory obligation in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) for billing authorities to maintain a separate Collection Fund. The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities and the Government of council tax and non-domestic rates. There is no requirement for a separate Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (i.e. major preceptors, the billing authority and the Government).

COUNCIL TAX INCOME

Council tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for that year. Each major preceptor's share of the accrued council tax income is available from the information required to be produced in order to prepare the Collection Fund Statement.

Since the collection of council tax is in substance an agency arrangement, the cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council taxpayers. If the net cash paid to a major preceptor in the year is more than its proportionate share of net cash collected from council tax debtors/creditors in the year, there is a debit adjustment. If the cash paid to a major preceptor is less than its proportionate share of net cash collected in the year from council tax debtors/creditors, the billing authority shall recognise a credit adjustment for the amount underpaid to the major preceptor in the year.

The Cash Flow Statement of the billing authority shall include within operating activities only its own share of council tax net cash collected from council tax debtors in the year; and the amount included for precepts paid shall exclude amounts paid to major preceptors. The difference between the major preceptors' share of the net cash collected from council tax debtors and net cash paid to major preceptors as precepts and settlement of the previous year's surplus or deficit on the Collection Fund shall be included within financing activities in the Cash Flow Statement.

NATIONAL NON-DOMESTIC RATES (NNDR)

Following the introduction of business rate localisation in April 2013, local authorities are responsible for collecting and distributing income from the business rates they collect.

The Council is responsible for any refunds relating to backdated appeals although a significant element of refunds relate to 2014/15 or prior years and in accordance with CIPFA Guidance (LAAP Bulletin 96) such liabilities are formally recognised in the accounts.

Safety net arrangements are in place to protect the Council from the impact of any reductions below 7.5% of its baseline funding level.

HERITAGE ASSETS

A tangible heritage asset is a tangible asset intended to be preserved in trust for future generations 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 Council 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 102 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 revalued 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.

INTANGIBLE ASSETS

Intangible assets such as software and licences give an economic benefit over more than one year. 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).

INVENTORIES & WORK IN PROGRESS

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

INVESTMENT PROPERTY

Investment properties are held to earn return rather than to provide services. The Council 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 initially at cost and then at fair value which is defined as the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. The valuation is based on highest and best use of any asset and so should take into account the highest price in the most advantageous market for that asset.

Investment properties are not depreciated but valued annually. 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. Gains and losses on disposal are treated similarly.

JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures that involve the use of the assets and resources of the joint ventures rather than the establishment of a separate entity. The Council recognises on its Balance Sheet only its share of the jointly controlled assets and related liabilities; whilst on its Comprehensive Income and Expenditure Statement it recognises those expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

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 has no material investment in finance leases as lessee or lessor.

The Council as a Lessee

Operating Leases

Rentals paid are recognised in Comprehensive Income and Expenditure Statement 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

Operating Leases

Rental income is recognised in Comprehensive Income and Expenditure Statement. 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.

OVERHEADS AND SUPPORT SERVICES

Central support services are allocated to revenue and capital accounts. The Council has adopted the general principle of allocating the costs of central administrative departments based on operational data or where this is not present on the estimated time spent by officers on the various services. The cost of corporate management is charged to the Corporate and Democratic Core.

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 Council 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 are 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.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective

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

In order to account properly for valuation changes the Revaluation Reserve was set up with a zero balance at 1 April 2007. Any revaluation upward results in a credit to the reserve. A downward revaluation can be set against the Revaluation Reserve if there is a balance referring to the devalued asset. As the reserve was set at zero many downwards revaluation of assets could appear as an impairment in the Comprehensive Income and Expenditure Statement (CIES). 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 a part 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. Where a component is replaced or restored the carrying amount of the old component shall be derecognised.

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 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 value's judgment we reduce the useful life of most of our assets by one year; the remaining assets' lives are reviewed by the value for reasonableness. Investment properties are not depreciated.

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 council 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.

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.

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.

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.

VALUE ADDED TAX

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.

2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Council Accounting in the United Kingdom 2017/18 (the Code) requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted by the Code for the relevant financial year. For the 2017/18 Statement of Accounts there are a number of accounting changes that need to be reported. These relate to:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions).
- Annual Improvements to IFRSs 2010-2012 cycle and 2012-2014 cycle.
- Amendment to IFRS 11 Joint Arrangements (accounting for Acquisitions of Interests in Joint Operations).
- Amendment to IAS 16 Property, Plant and Equipment and IAS38 Intangible Assets (clarifications of acceptable methods of depreciation and amortisation).
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative).

Additional disclosures required in the 2017/18 and 2018/19 financial statements in respect of accounting changes that are introduced in the 2018/19 Code are:

- IFRS9 Financial Instruments
- IFRS15 Revenue from contracts with customers
- Amendment to IAS7 Statement of Cash Flows (disclosure initiative)

Except for IFRS9, these amendments are minor, and they are not expected to have a material impact on the Statement of Accounts.

The Council will adopt *IFRS 9 Financial Instruments* with effect from 1st April 2018. The main changes include the reclassification of financial assets and the earlier recognition of the impairment of financial assets. The Council does not expect the reclassification changes to have a material impact upon the financial statements because the majority of its financial assets will retain the same measurement basis. To this end, on 1st April 2018 the Council irrevocably elected to present changes in the fair value of the following equity investments in other comprehensive income as permitted by the IFRS:

- CCLA – LAMIT Property Fund
- Investec Diversified Income Fund
- M&G Global Dividend Fund
- M&G Optimal Income Fund
- Threadneedle Strategic Bond Fund
- Threadneedle Global Equity Income Fund
- UBS Multi Asset Income Fund
- CCLA - Diversified Income Fund

The Council does not expect the impairment changes to have a material impact upon the financial statements because the impairment charge will be immaterial for its treasury management assets (e.g. bank deposits and bonds) and it already makes a provision for doubtful debts on its service assets (e.g. trade receivables). The estimated additional provision to be made as at 1st April 2018 is £25,000.

3 CRITICAL JUDGEMENTS AND ASSUMPTIONS

Critical Judgements

In applying the accounting policies the Council 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 Council judges that its assets will not be impaired as a result of a need to close facilities, reduce service provision or ongoing maintenance.
- The Council holds a significant portfolio of investment property and although general economic growth is still fragile, the Council 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 Council 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 Council does not expect the tax gathering mechanisms for Council Tax and Business Rates to fundamentally alter the Council's financial stability. The risk within the rates retention scheme is assumed to be the safety net which has been set by the government at 7.5% of the Council spending baseline which equates to £144k.
- IFRS 12 requires that the accounts disclose the judgements made to assess the type of Joint Arrangement to determine the Council's correct accounting treatment. At the start of 2017/18, the Council was contracted into a shared arrangement for its ICT and Revenues and Benefits functions, called CenSus Shared Services Partnership.
 - On 1 June 2017, staff from Census ICT were transferred under TUPE arrangements back to their originating Council ending the ICT Census joint partnership. The IAS19 report covering the period 1 April 2017 to 31 May 2017 was calculated on a 'no liability' basis, with all assets and liabilities transferring to the respective Councils.
 - During 2017/18, Adur District Council left the Census Revenues and Benefits Service, hosted by Mid Sussex, on 31 September 2017. The IAS19 report covering the period 1 April 2017 to 30 September 2017 was calculated on a 'no liability' basis, with all assets and liabilities transferring to Adur and the remaining partners in Census respectively. Each of the three partners shows its share of the Census Revenues and Benefits pension assets and liabilities in the account for the first six months of 2017/18.
 - From 1 October 2017, Census Revenues and Benefits remained hosted by Mid Sussex District Council. The IAS19 report covering the period 1 October 2017 to 31 March 2018 was calculated on a 'no liability' basis, with all assets and liabilities transferring to the respective Councils. Each partner shows its share of the pension assets and liabilities in the accounts.

- On 31 March 2018, all employees from Census Revenues and Benefits transferred to Mid Sussex District Council as the partnership finished on 31 March 2018 and the Joint Committee ceased.

CenSus Shared Services Partnership meets the definition of a Joint Operation as these functions were discharged to the Census Joint Committee, comprising of Members of each of the participating authorities, each with joint control. It is not structured through a separate vehicle. As such we recognise our proportional share of assets, liabilities, revenues and expenses of the arrangement in our accounts.

Assumptions

The Statement of Accounts contains estimated figures that are based on assumption made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustments in the forthcoming financial year are as follows:

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

During 2017/18 the actuaries advised that the pension liability had been affected as follows:

| <u>Change in assumptions year ended 31 March 2018</u> | Horsham | |
|---|------------------------------------|----------------------------------|
| | Approximate % increase to Employer | Approximate monetary amount £000 |
| 0.5% decrease in Real Discount Rate | 9% | 14,407 |
| 1 year increase in member life expectancy | 3% to 5% | 4,714 |
| 0.5% increase in Salary Increase Rate | 1% | 1,818 |
| 0.5% increase in the Pension Increase Rate | 8% | 12,419 |

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 £342k.

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. For every year that the remaining lives of buildings were to decrease the extra depreciation would be £33k.

Business Rates

The Business Rates Retention Scheme became effective from 1 April 2013 and as a result local authorities are liable for any successful appeals against business rates by businesses in 2012/13 and earlier financial years in their proportional share. The Council has a total provision of £4.6m as an estimate of potential successful appeals up to 31 March 2018, the Council's proportion (40%) reflected in the Balance Sheet is £1.845m. This estimate is calculated using Valuation Office ratings list of appeals and an analysis of successful appeals to date.

4 MATERIAL ITEMS OF INCOME AND EXPENSE

Material items in terms of the Council's overall net expenditure, which are derived from events or transactions that are not expected regularly, that fall within the ordinary activities of the Council. They are required to be disclosed separately by virtue of their size or incidence to give a fair presentation of the accounts. There were no material items of income or expenditure in 2016/17 or 2017/18 other than disclosed on the face of the Comprehensive Income and Expenditure Statement.

5 PRIOR PERIOD ADJUSTMENTS - None.

6 EVENTS AFTER THE BALANCE SHEET DATE

From 1 April 2018, the Council's Revenues and Benefits service is provided by LGSS. LGSS operates under a joint committee governance structure led by representatives from their partner councils; Milton Keynes Council, Cambridgeshire County Council, Northamptonshire County Council and Northampton Borough Council. The Council does not expect there to be a material impact from the post balance sheet event and therefore no adjustment has been made in the statement of accounts for this.

The Statement of Accounts were authorised for issue by the Director of Corporate Resources for Horsham District Council on xx July 2018. 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 2018, the figures in the financial statements and note have been adjusted in all material respects to reflect the impact of this information.

7 EXPENDITURE AND FUNDING ANALYSIS

This note details how the annual expenditure is used and funded from resources in comparison with resources consumed or earned by the local authority in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the councils departments.

| 2016/17 | | | | 2017/18 | | |
|--|--|---|---|--|--|---|
| Net Expenditure Chargeable to the General Fund Balance | Adjustments between Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement | | Net Expenditure Chargeable to the General Fund Balance | Adjustments between Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement |
| | (Note 7a) | | | | (Note 7a) | |
| 1,773 | 464 | 2,237 | Audit, Finance, HR & Commissioning | 1,511 | 438 | 1,949 |
| 2,750 | (1,015) | 1,735 | Community & Culture | 2,362 | 2,689 | 5,050 |
| 1,237 | 51 | 1,288 | Corporate Management | 1,105 | 184 | 1,289 |
| 378 | 16 | 394 | Customer Services | 344 | 37 | 382 |
| 300 | 767 | 1,067 | Housing Services | 422 | 595 | 1,017 |
| 1,750 | 639 | 2,389 | ICT | 1,757 | 430 | 2,188 |
| 1,450 | 3 | 1,453 | Legal and Democratic Services & Elections | 1,369 | 51 | 1,419 |
| (2,523) | 295 | (2,228) | Parking | (2,651) | 748 | (1,903) |
| 1,850 | 269 | 2,119 | Planning & Economic Development | 1,743 | 308 | 2,051 |
| (1,533) | 3,521 | 1,988 | Property & Facilities | (1,721) | 3,187 | 1,466 |
| 3,607 | 1,124 | 4,731 | Refuse, Cleansing & Environmental Services | 3,604 | 4,859 | 8,463 |
| 426 | 149 | 575 | Revenues & Benefits | 577 | 46 | 623 |
| 11,465 | 6,283 | 17,748 | Net cost of services | 10,423 | 13,571 | 23,994 |
| (14,125) | (11,867) | (25,992) | Other income and expenditure | (11,903) | (11,417) | (23,319) |
| (2,660) | (5,584) | (8,244) | Surplus or deficit | (1,480) | 2,155 | 676 |
| (17,333) | | | Opening General Fund Balance at 31 March 2017 | (19,993) | | |
| (2,660) | | | Less Deficit on General Fund in Year | (1,480) | | |
| (19,993) | | | Closing General Fund Balance | (21,473) | | |

7a ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS

2017/18

| Adjustments from General fund to arrive at Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes | Net change for the Pensions Adjustments | Interest | Other Differences | Total Adjustments |
|--|----------------------------------|---|------------|-------------------|-------------------|
| Audit, Finance, HR & Commissioning | 0 | (39) | 821 | (345) | 438 |
| Community & Culture | 2,305 | 280 | | 103 | 2,689 |
| Corporate Management | 0 | 123 | | 61 | 184 |
| Customer Services | 0 | 35 | | 3 | 37 |
| Housing Services | 543 | 54 | | (2) | 595 |
| ICT | 237 | 124 | | 70 | 430 |
| Legal and Democratic Services & Elections | 0 | 93 | | (42) | 51 |
| Parking | 705 | 75 | | (32) | 748 |
| Planning & Economic Development | 12 | 405 | | (108) | 308 |
| Property & Facilities | 627 | 45 | | 2,515 | 3,187 |
| Refuse, Cleansing & Environmental Services | 4,085 | 526 | | 248 | 4,859 |
| Revenues & Benefits | 0 | 88 | | (42) | 46 |
| Other income and expenditure from the Funding Analysis | (1,241) | (13) | | (10,163) | (11,417) |
| Difference between General Fund (Surplus) or deficit and Comprehensive Income and Expenditure (surplus) or deficit on the provision of services | 7,273 | 1,795 | 821 | (7,734) | (2,155) |

2016/17

| Adjustments from General fund to arrive at Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes | Net change for the Pensions Adjustments | Interest | Other Differences | Total Adjustments |
|--|----------------------------------|---|------------|-------------------|-------------------|
| Audit, Finance, HR & Commissioning | | (26) | 494 | (4) | 464 |
| Community & Culture | (1,285) | 112 | | 158 | (1,015) |
| Corporate Management | | 51 | | | 51 |
| Customer Services | | 16 | | | 16 |
| Housing Services | 754 | 21 | | (8) | 767 |
| ICT | 746 | (96) | | (11) | 639 |
| Legal and Democratic Services & Elections | | 43 | | (40) | 3 |
| Parking | 282 | 25 | | (12) | 295 |
| Planning & Economic Development | 81 | 156 | | 32 | 269 |
| Property & Facilities | 446 | 19 | | 3,056 | 3,521 |
| Refuse, Cleansing & Environmental Services | 907 | 194 | | 23 | 1,124 |
| Revenues & Benefits | | 149 | | | 149 |
| Other income and expenditure from the Funding Analysis | (1,359) | 77 | | (10,585) | (11,867) |
| Difference between General Fund (Surplus) or deficit and Comprehensive Income and Expenditure (surplus) or deficit on the provision of services | 572 | 741 | 494 | (7,391) | (5,584) |

8 OTHER OPERATING EXPENDITURE

| | 2016/17 | 2017/18 |
|--|--------------|--------------|
| | £000 | £000 |
| Parish council precepts | 2,669 | 2,891 |
| Parish grants | 49 | 9 |
| (Gains)/losses on the disposal of non-current assets | (1,359) | (1,241) |
| Total | 1,359 | 1,659 |

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| | 2016/17 | 2017/18 |
|--|----------------|----------------|
| | £000 | £000 |
| Interest payable and similar charges | 135 | 140 |
| Net interest cost on LGPS Pension | 77 | (13) |
| Interest receivable and similar income | (629) | (961) |
| Income and expenditure in relation to investment properties and changes in their fair value (as detailed in note 13) | (3,110) | (1,995) |
| Total | (3,527) | (2,829) |

10 TAXATION AND GRANT INCOME

| | 2016/17 | 2017/18 |
|---|-----------------|-----------------|
| | £000 | £000 |
| Benefits Grants | (31,090) | (30,680) |
| Other Government Grants | (160) | (816) |
| Other Grants | (499) | (347) |
| Grants credited to Services | (31,749) | (31,843) |
| Council Tax | (11,120) | (11,720) |
| Non Domestic Rates income & expenditure | (1,806) | (807) |
| Revenue Support Grant | (825) | (149) |
| New Homes Bonus | (4,403) | (4,820) |
| Section 31 Grant – Business Rates Reliefs | (704) | (1,605) |
| Other Government Grants | (377) | (291) |
| Capital grants and contributions | (4,589) | (2,757) |
| Credited to Taxation and Non Specific Grant Income | (23,824) | (22,149) |

11 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

| 2017/18 | General Fund Balance £000 | Usable Reserves Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Movement in Unusable Reserves £000 |
|---|---------------------------------|--|-------------------------------------|---|
| Adjustments primarily involving the Capital Adjustment Account: | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement: | | | | |
| Charges for depreciation of non-current assets | (2,004) | | | 2,004 |
| Impairment on Property, Plant and Equipment | (4,939) | | | 4,931 |
| Other gains transferred from Revaluation Reserve | 0 | | | 0 |
| Movements in the market value of Investment Properties | (1,080) | | | 1,080 |
| Amortisation of intangible assets | (3) | | | 3 |
| 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 | (484) | | | 484 |
| Revenue expenditure funded from capital under statute | (1,098) | | | 1,098 |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | |
| Statutory provision for the financing of capital investment | 924 | | | (924) |
| Capital expenditure financed from revenue balances | 5,194 | | | (5,194) |
| Adjustments primarily involving the Capital Grants Unapplied Account: | | | | |
| Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 2,757 | | (2,757) | 0 |
| Application of grants to capital financing transferred to the Capital Adjustment Account | 97 | | 1,591 | (1,688) |
| Adjustments primarily involving the Capital Receipts Reserve: | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 1,726 | (1,726) | | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | 5,968 | | (5,968) |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | | | | 0 |
| Adjustments primarily involving the Financial Instruments Adjustment Account: | | | | |
| 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 |
| Adjustments primarily involving the Pensions Reserve: | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (4,484) | | | 4,484 |
| Employers pension contributions and direct payments to pensioners payable in the year | 2,690 | | | (2,690) |
| Adjustments primarily involving the Collection Fund Adjustment Account: | | | | |
| 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 | (868) | | | 868 |
| Adjustments primarily involving the Accumulated Absences Account: | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (7) | | | 97 |
| Total Adjustments | (1,603) | 4,242 | (1,166) | (1,473) |

| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|---|-------------------------|--------------------------------|-----------------------------|-------------------------------------|
| 2016/17 | £000 | £000 | £000 | £000 |
| Adjustments primarily involving the Capital Adjustment Account: | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement: | | | | |
| Charges for depreciation of non-current assets | (2,720) | | | 2,720 |
| Impairment on Property, Plant and Equipment | 1,353 | | | (1,353) |
| Other gains transferred from Revaluation Reserve | 0 | | | 0 |
| Movements in the market value of Investment Properties | 412 | | | (412) |
| Amortisation of intangible assets | (188) | | | 188 |
| 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 | (261) | | | 261 |
| Revenue expenditure funded from capital under statute | (787) | | | 787 |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | |
| Statutory provision for the financing of capital investment | 837 | | | (837) |
| Capital expenditure financed from revenue balances | 864 | | (93) | (771) |
| Adjustments primarily involving the Capital Grants Unapplied Account: | | | | |
| Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 4,589 | | (4,589) | 0 |
| Application of grants to capital financing transferred to the Capital Adjustment Account | 0 | | 2,905 | (2,905) |
| Adjustments primarily involving the Capital Receipts Reserve: | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 1,621 | (1,621) | | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | 2,094 | | (2,094) |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | | | | |
| Adjustments primarily involving the Financial Instruments Adjustment Account: | | | | |
| 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 |
| Adjustments primarily involving the Pensions Reserve: | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (3,239) | | | 3,239 |
| Employers pension contributions and direct payments to pensioners payable in the year | 2,501 | | | (2,501) |
| Adjustments primarily involving the Collection Fund Adjustment Account: | | | | |
| 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 | 622 | | | (622) |
| Adjustments primarily involving the Accumulated Absences Account: | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 4 | | | (4) |
| Total Adjustments | 5,584 | 473 | (1,777) | (4,280) |

12 PROPERTY, PLANT & EQUIPMENT

| Movements in 2017/18 | Other Land & Buildings | Vehicles, Plant, Furniture & Equipment | Assets Under Construction | Total Property, Plant & Equipment |
|---|---------------------------|---|------------------------------|--|
| Cost or Valuation | | | | |
| At 1 April 2017 | 85,437 | 8,465 | 5,796 | 99,698 |
| Additions | 6,138 | 3,463 | 5,237 | 14,838 |
| Reclassifications | 5,059 | | (5,059) | 0 |
| Revaluation increase/(decreases) recognised in the Revaluation Reserve | 4,856 | | | 4,856 |
| Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (4,939) | | | (4,939) |
| De-recognition – disposal | 0 | | | 0 |
| Other movements in cost or valuation | (1,159) | | | (1,159) |
| At 31 March 2018 | 95,392 | 11,928 | 5,974 | 113,295 |
| Accumulated Depreciation and Impairment | | | | |
| At 1 April 2017 | (404) | (6,934) | 0 | (7,338) |
| Depreciation charge | (1,339) | (665) | | (2,004) |
| Written out to the Revaluation Reserve | 799 | | | 799 |
| Written out to the Surplus/Deficit on the Provision of Services | 360 | | | 360 |
| Other movements | 0 | | | 0 |
| At 31 March 2018 | (584) | (7,599) | 0 | (8,183) |
| Net Book Value | | | | |
| At 31 March 2018 | 94,808 | 4,329 | 5,975 | 105,112 |
| At 31 March 2017 | 85,033 | 1,531 | 5,796 | 92,360 |

| Movements in 2016/17 | Other Land & Buildings | Vehicles, Plant, Furniture & Equipment | Assets Under Construction | Total Property, Plant & Equipment |
|---|---------------------------|---|---------------------------------|--|
| | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | |
| At 1 April 2016 | 78,616 | 7,602 | 1,767 | 87,985 |
| Additions | 1,412 | 899 | 4,370 | 6,681 |
| Reclassifications | (787) | | (325) | (1,112) |
| Revaluation increase/(decreases) recognised in the Revaluation Reserve | 6,349 | | | 6,349 |
| Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services | 1,353 | | | 1,353 |
| De-recognition – disposal | (18) | (36) | | (54) |
| Other movements in cost or valuation | (1,488) | 0 | (16) | (1,504) |
| At 31 March 2017 | 85,437 | 8,465 | 5,796 | 99,698 |
| Accumulated Depreciation and Impairment | | | | |
| At 1 April 2016 | (734) | (5,389) | 0 | (6,123) |
| Depreciation charge | (1,174) | (1,545) | | (2,719) |
| Depreciation written out to the Revaluation Reserve | 854 | | | 854 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 634 | | | 634 |
| De-recognition | 16 | | | 16 |
| At 31 March 2017 | (404) | (6,934) | 0 | (7,338) |
| Net Book Value | | | | |
| At 31 March 2017 | 85,033 | 1,531 | 5,796 | 92,360 |
| At 31 March 2016 | 77,882 | 2,213 | 1,767 | 81,862 |

The lives of operational properties are individually assessed by the valuing officer. Vehicles have a 5-7 year life, ICT equipment have a life of 3-5 years.

Capital Commitments

At 31 March 2018, the Council was committed to the following significant capital works contracts (£3.034m in 2017):

| | |
|---|---------------------|
| Capital scheme | £000 |
| Broadbridge Heath leisure centre | 5,227 |
| Piries Place Car Park | 344 |
| Pavilions Hurst Road Car Park | 224 |
| Temporary accommodation - Rowan Drive and Peary Close | 97 |
| Total | <u>5,892</u> |

Effects of Changes in Estimates

Revaluations

The Council 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 externally. 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 | Total £000 |
|----------------------------|--|--|-----------------------|
| Carried at historical cost | | 4,329 | 4,329 |
| Valued at fair value as at | | | |
| 31 March 2018 | 75,546 | | 75,546 |
| 31 March 2017 | 6,705 | | 6,705 |
| 31 March 2016 | 5,101 | | 5,101 |
| 31 March 2015 | 955 | | 955 |
| 31 March 2014 | 5,829 | | 5,829 |
| | <u>94,136</u> | <u>4,329</u> | <u>98,465</u> |

13 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:

| | 2016/17 £000 | 2017/18 £000 |
|--|-------------------------|-------------------------|
| Income from investment property | (3,011) | (3,374) |
| Direct operating expenses arising from investment property | 313 | 299 |
| Net (gains)/losses from fair value adjustments | (412) | 1,080 |
| Net (gain)/loss | <u>(3,110)</u> | <u>(1,995)</u> |

There are no restrictions to the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of the disposal. In estimating the fair value of the Council's investment properties, the highest and best use of the properties is deemed to be their current use. All the Council's investment property portfolio has been assessed as Level 2 for valuation purposes (see note 1 for explanation of fair value levels).

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

| | 2016/17 £000 | 2017/18 £000 |
|--|-------------------------|-------------------------|
| Balance at start of year | 32,887 | 35,461 |
| Additions | 1,565 | 12,300 |
| Subsequent expenditure | 0 | 0 |
| Disposals | (29) | 0 |
| Net gains/(losses) from fair value adjustments | 411 | (1,161) |
| Transfers | 627 | 0 |
| Balance at end of the year | <u>35,461</u> | <u>46,600</u> |

14 FINANCIAL INSTRUMENTS

Financial Instruments - Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31 March 2018, using market interest rates for instruments of similar credit quality and remaining term to maturity.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2018, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

The fair values calculated are as follows where the fair value is materially different from carrying value. The valuations are deemed as level 2 in the fair value hierarchy (see note 1 for explanation of levels):

| | 31.03.2017 | | 31.03.2018 | |
|-----------------------|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair Value | Carrying amount | Fair Value |
| | £000 | £000 | £000 | £000 |
| Financial liabilities | (4,000) | (4,211) | (4,000) | (4,096) |
| Loans and receivables | 5,877 | 6,057 | 2,000 | 2,054 |

The financial liability is a long term borrowing whose rate is less favourable than the applicable prevailing rate while the financial assets which are classified as a loan and receivable are a long term investment whose rate is more favourable than the applicable prevailing rates.

For all other Financial Instruments the balance sheet figure is materially equivalent to the fair value. In the fair value hierarchy the levels for the instruments which are subject to a valuation technique (this excludes short term trade payables and receivables) are shown below and are all financial assets.

| Category | Fair value | 31.03.2017 | 31.03.2018 |
|-----------------------------|------------|------------|------------|
| | level | £m | £m |
| Pooled funds | 1 | 10 | 15.6 |
| Money market funds | 1 | 17.4 | 14.4 |
| Corporate/Gov bonds and CDs | 2 | 0 | 1.8 |

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 transactions are excluded from financial instruments.

| | Long Term | | Short term | |
|--|---------------|---------------|---------------|---------------|
| | 31.03.2017 | 31.03.2018 | 31.03.2017 | 31.03.2018 |
| | £000 | £000 | £000 | £000 |
| Financial Assets: | | | | |
| Investments and Available-for-sale | | | | |
| Loans and receivables | 4,000 | 2,000 | 16,721 | 5,351 |
| Available -for-sale financial assets | 11,806 | 15,632 | 17,413 | 14,383 |
| Total | 15,806 | 17,632 | 34,134 | 19,734 |
| Debtors | | | | |
| Loans and receivables | 322 | 297 | 0 | 0 |
| Financial assets carried at contract amounts | 0 | 0 | 3,418 | 4,764 |
| Total | 322 | 297 | 3,418 | 4,764 |

Financial Liabilities:
Borrowings

| | | | | |
|---|----------------|----------|-----------------|-----------------|
| Financial liabilities at amortised cost | (4,000) | 0 | 0 | (4,000) |
| Total | (4,000) | 0 | 0 | (4,000) |
| Creditors | | | | |
| Financial liabilities carried at contract amounts | 0 | 0 | (11,577) | (14,496) |
| Total | 0 | 0 | (11,577) | (14,496) |

Income, Expense, Gains and Losses

Gains and losses relating to financial instruments recognised in the Comprehensive Income and expenditure statement:

| | 2016/17 | | | | 2017/18 | | | |
|--|--|---------------------------------------|-----------------------|--------------|--|---------------------------------------|-----------------------|--------------|
| | Financial Liabilities measured at amortised cost | Financial Assets: Loans & receivables | Financial Assets: AfS | Total | Financial Liabilities measured at amortised cost | Financial Assets: Loans & receivables | Financial Assets: AfS | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Interest Expense | 135 | 0 | 0 | 135 | 140 | | | 140 |
| Total expenses in Surplus/Deficit | 135 | 0 | 0 | 135 | 140 | | | 140 |
| Interest income | 0 | (216) | (123) | (339) | | (129) | (198) | (327) |
| Dividend income | 0 | 0 | (290) | (290) | | | (512) | (512) |
| Gains on derecognition | | | | | | | (72) | (72) |
| Total income in Surplus/Deficit | 0 | (216) | (413) | (629) | 0 | -129 | (782) | (911) |
| Gains/Loss on revaluation | 0 | 0 | (36) | (36) | 0 | 0 | 327 | 327 |
| Amounts recycled to surplus/deficit | | | | | | | 72 | 72 |
| Other Comprehensive Income | 0 | 0 | (36) | (36) | | | 399 | 399 |
| Net gain/(loss) for the year | 135 | (216) | (449) | (530) | 140 | -129 | (383) | (372) |

15 CASH AND CASH EQUIVALENTS

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

| | 31.03.2017 | 31.03.2018 |
|--|--------------|--------------|
| | £000 | £000 |
| Cash held by Council | 2 | 6 |
| Bank current accounts | (221) | (216) |
| Money market Funds | 3,000 | 5,000 |
| Short-term deposits | 1,467 | 747 |
| Total Cash and Cash Equivalents | 4,248 | 5,537 |

16 SHORT-TERM DEBTORS

| | 31.03.2017 | 31.03.2018 |
|------------------------------|--------------|--------------|
| | £000 | £000 |
| Sundry Debtors | 3,742 | 4,097 |
| Central government bodies | 211 | 966 |
| Payments in advance | 398 | 382 |
| Council Tax debtors | 431 | 438 |
| NNDR Debtors | 1,136 | 776 |
| Housing benefit overpayments | 2,891 | 2,981 |
| Other local authorities | 110 | 24 |
| | 8,919 | 9,664 |
| Allowance for doubtful debts | (3,012) | (2,945) |
| | 5,907 | 6,719 |

17 SHORT-TERM CREDITORS

| | 31.03.2017 £000 | 31.03.2018 £000 |
|---|--------------------|--------------------|
| Sundry Creditors | (5,505) | (5,747) |
| Housing Benefit Subsidy | (193) | 0 |
| Prepayment of NNDR | (823) | (1,000) |
| Prepayment of Council Tax | (292) | (269) |
| WSCC Council Tax creditors | (3,398) | (3,158) |
| SPA Council Tax creditors | (419) | (387) |
| Central Government – Grants, Reliefs and Levy | (782) | (1,464) |
| Central Government - NNDR creditors | (2,927) | (1,903) |
| WSCC NNDR Creditors | (622) | (416) |
| Total | (14,961) | (14,344) |

18 PROVISIONS AND OTHER LONG TERM LIABILITIES

| | Provision for NNDR appeals | Provision for corporate restructure | Provision for Accumulated Absences | Total |
|---------------------------------------|----------------------------------|---|--|----------------|
| | £000 | £000 | £000 | £000 |
| Balance at 1 April 2016 | (2,063) | (138) | (153) | (2,354) |
| Additional provisions made in 2016/17 | (673) | (233) | 5 | (901) |
| Amounts used in 2016/17 | 608 | 0 | 0 | 608 |
| Unused amounts reversed in 2016/17 | 0 | 138 | 0 | 138 |
| Balance at 31 March 2017 | (2,128) | (233) | (148) | (2,509) |
| Additional provisions made in 2017/18 | (598) | (71) | (7) | (676) |
| Amounts used in 2017/18 | 882 | 233 | 0 | 1,115 |
| Unused amounts reversed in 2017/18 | 0 | 0 | 0 | 0 |
| Balance at 31 March 2018 | (1,844) | (71) | (155) | (2,070) |

Provision for NNDR Appeals

Estimate of rates potentially overcharged to businesses repayable on appeal.

Provision for Accumulated Absences

Established in 2009/10 to cover employees' leave that was not taken at the end of each year.

S106 Contributions are developer contributions that are expected to be paid to other agencies.

Capital Grants & Receipts in Advance are developer contributions that are expected to be used by the Council but still have conditions that mean they are potentially refundable.

The movements in both are show below

| | S106 Contributions | | Capital Grants Rec'd in Advance | |
|--------------------------|--------------------|--------------------|------------------------------------|--------------------|
| | 31.03.2017 £000 | 31.03.2018 £000 | 31.03.2017 £000 | 31.03.2018 £000 |
| Opening balance | (4,399) | (7,308) | (1,471) | (11,560) |
| Grants/Contributions in | (2,946) | (2,804) | (12,139) | (5,010) |
| Grants/Contributions out | 37 | 41 | 2,050 | 911 |
| Closing balance | (7,308) | (10,071) | (11,560) | (15,659) |

19 USABLE 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 2017/18.

| Useable Revenue Reserves | Balance at 31.03.16 £000 | Income / Expenditure 2016/17 £000 | Transfer to / from other reserves 2016/17 £000 | Balance at 31.03.17 £000 | Income / Expenditure 2017/18 £000 | Transfer to / from other reserves 2017/18 £000 | Balance at 31.03.18 £000 |
|---------------------------------------|-----------------------------|--------------------------------------|---|-----------------------------|--------------------------------------|---|-----------------------------|
| General Fund Balance | (9,091) | (3,630) | 3,241 | (9,480) | (6,278) | 4,100 | (11,658) |
| New Homes Reserve | (3,701) | 0 | (1,232) | (4,933) | 0 | 885 | (4,048) |
| NHB - BBH Leisure Centre | 0 | 617 | (2,000) | (1,383) | 5,001 | (5,000) | (1,382) |
| Health and Wellbeing | (198) | 0 | 21 | (177) | 0 | (20) | (197) |
| Council tax localism | (278) | 0 | (15) | (293) | 0 | 0 | (293) |
| Neighbourhood Planning Grant | (318) | 0 | 40 | (278) | 0 | 0 | (278) |
| s106 Reserves | (1,393) | 209 | 0 | (1,184) | 432 | 0 | (752) |
| NNDR Provision | (1,435) | 0 | 0 | (1,435) | 0 | 0 | (1,435) |
| Transformation fund | 0 | 0 | (113) | (113) | 0 | 19 | (94) |
| Other | (919) | 143 | 58 | (718) | (84) | 16 | (786) |
| Other Earmarked Reserves | (8,242) | 969 | (3,241) | (10,514) | 5,350 | (4,100) | (9,264) |
| Sub-total | (17,333) | | | (19,994) | | | (20,923) |
| Useable Capital Reserves | | | | | | | |
| Capital Receipts Reserve | (5,755) | 473 | | (5,282) | 4,249 | | (1,033) |
| Capital Grants unapplied | (3,504) | (1,777) | | (5,281) | (1,171) | | (6,452) |
| Total Useable Revenue Reserves | (26,592) | | | (30,557) | | | (28,959) |

20 UNUSABLE RESERVES

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are;

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation,
- 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.

| | 31.03.2017 £000 | 31.03.2018 £000 |
|--|--------------------|--------------------|
| Balance at 1 April | (23,553) | (29,298) |
| (Upward)/downward revaluation of assets | (7,579) | (6,767) |
| Downward revaluation of assets and impairment losses not charged to the Surplus/deficit on the Provision of Services | 1,229 | 1,911 |
| Difference between fair value depreciation and historical cost depreciation | 423 | 520 |
| Amount written off to the Capital Adjustment Account | 182 | 117 |
| Balance at 31 March | (29,298) | (33,517) |

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 Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement (as the benefits are earned by employees accruing years of service), updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The credit on the Pensions Reserve therefore shows a substantial surplus in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| | 2016/17 | 2017/18 |
|--|----------------|-----------------|
| | £000 | £000 |
| Balance at 1 April | 1,875 | (2,045) |
| Actuarial gains or losses on pensions assets and liabilities | (4,659) | (10,046) |
| 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 | 3,239 | 4,467 |
| Employers pensions contributions and direct payments to pensioners payable in the year | (2,500) | (2,690) |
| Balance at 31 March | (2,045) | (10,314) |

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 acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses 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.

| | 2016/17 | 2017/18 |
|--|-----------------|-----------------|
| | £000 | £000 |
| Balance at 1 April | (78,838) | (83,858) |
| 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 | 2,720 | 2,003 |
| - Revaluation gains / losses on Property, Plant and Equipment | (1,353) | 4,939 |
| - Depreciation of intangible assets | 188 | 3 |
| - Revenue expenditure funded from capital under statute | 787 | 1,098 |
| - 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 | 261 | 484 |
| Movements in the market value of Investment Property | (411) | 1,081 |
| Adjusting amounts written out of the Revaluation Reserve | (605) | (637) |
| write out prior year unfinanced capital expenditure derecognised | | 15 |
| Capital financing applied in the year: | | |
| - Use of the Capital Receipts Reserve to finance new capital expenditure | (2,094) | (5,968) |
| - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (2,726) | (1,518) |
| - Application of grants to capital financing from the Capital Grants Unapplied Account | (180) | (170) |
| Statutory provision for the financing of capital investment charged against the General Fund | (837) | (924) |
| Use of general revenue reserves for the financing of capital investment | (770) | (5,193) |
| Balance at 31 March | (83,858) | (88,645) |

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

The balance is reduced when investments with accumulated gains are

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

| | 31.03.2017 | 31.03.2018 |
|--|--------------|------------|
| | £000 | £000 |
| Balance at 1 April | (68) | (104) |
| Revaluation of investment not charged to the Surplus or Deficit on the Provision of Services | (36) | 327 |
| Accumulated gains on assets sold and maturing write out to CIES in OCI | | 72 |
| Balance at 31 March | <u>(104)</u> | <u>295</u> |

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.

| | 2016/17 | 2017/18 |
|--|--------------|--------------|
| | £000 | £000 |
| Balance at 1 April - Council Tax | (343) | (385) |
| 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 | (42) | 16 |
| Balance at 31 March | <u>(385)</u> | <u>(369)</u> |
| Balance at 1 April – NNDR | 542 | (36) |
| Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements | (578) | 851 |
| Balance at 31 March | <u>(36)</u> | <u>815</u> |
| Total | <u>(421)</u> | <u>446</u> |

21 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

a) Adjust net surplus or deficit on the provision of services for non-cash movements

| | 2016/17 | 2017/18 |
|------------------------------------|--------------|----------------|
| | £000 | £000 |
| Depreciation and Impairments | (2,907) | (2,006) |
| Impairments | 1,764 | (6,019) |
| Pensions Liability | (739) | (1,777) |
| (Increase)/decrease in debtors | 306 | 561 |
| (Increase)/decrease in creditors | 331 | 1,866 |
| Movement in provisions | 464 | (893) |
| Movement in Reserves | 93 | 97 |
| (Increase)/decrease in inventories | (46) | 33 |
| Other non-cash adjustments | (36) | 449 |
| Total | <u>(770)</u> | <u>(7,689)</u> |

b) Adjust for Items included in the net surplus or deficit on the provision of services that are investing or financing activities

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Capital grants credited to the surplus or deficit on the provision of services | 4,589 | 2,757 |
| Proceeds from the sale of non-current assets | 1,360 | 1,241 |
| Council Tax and NDR adjustment | 179 | 180 |
| Total | 6,128 | 4,178 |

c) Interest received, interest paid and dividends received

| | 2016/17 £000 | 2017/18 £000 |
|-------------------|-----------------|-----------------|
| Interest received | (629) | (960) |
| Interest paid | 135 | 139 |
| Total | (494) | (821) |

22 EXTERNAL AUDIT COSTS

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Fees payable with regard to external audit services carried out by the appointed auditors for the year | 50 | 50 |
| Fees payable for the certification of grant claims and returns for the year | 13 | 12 |
| Fees payable in respect of other services provided during the year | 0 | 0 |
| Total | 63 | 62 |

The costs for the 2017/18 audit above are based on the indicative scale fees. It does not include any fee variation for additional audit work that may be required to complete the audit. Variations to the scale fee have not been finalised.

23 MEMBERS ALLOWANCES

The Council paid the following amounts to the 44 Members of the Council during the year:

| | 2016/17 £000 | 2017/18 £000 |
|-----------------------|-----------------|-----------------|
| Attendance Allowances | 319 | 326 |
| Expenses | 21 | 18 |
| Total | 340 | 344 |

24 LEASES

Operating Leases

Council as a Lessee

The Council has a single material operating lease commencing on 1st June 2015 for its main office. The lease is for 25 years with earliest break at 10th year. The expenditure charged to the Comprehensive Income and Expenditure Statement in the year was £230,000.

Council as Lessor

The Council leases out a range of properties under operating leases for community services and commercial rents.

Future minimum lease payments

The future minimum lease payments receivable/payable under non-cancellable leases in future years are:

| | Receivable as Lessor | | Payable as Lessee | |
|---|----------------------|-------------------|-------------------|-------------------|
| | 31/3/2017 £000 | 31/3/2018 £000 | 31/3/2017 £000 | 31/3/2018 £000 |
| Not later than one year | 2,121 | 2,911 | 230 | 230 |
| Later than one year and not later than five years | 5,257 | 7,848 | 920 | 920 |
| Later than five years | 7,112 | 9,440 | 728 | 498 |
| | 14,490 | 20,199 | 1,878 | 1,648 |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as rent reviews. The Council received contingent rent of £0.28m in 2017/18 (£0.43m in 2016/17).

Finance Leases - The Council has no material investment in finance leases as lessee or lessor.

25 SENIOR OFFICER'S REMUNERATION

| Corporate Post Holder Title | Total Remuneration excluding pension contributions | Employer Pension Contributions | Total Remuneration including pension contributions | Note |
|--|---|---------------------------------------|---|-------------|
| 2017/18 | £ | £ | £ | a |
| Chief Executive | 125,460 | 23,217 | 148,677 | |
| Director of Community Services | 73,340 | 14,954 | 88,294 | b |
| Director of Corporate Resources (Section 151 Officer) | 96,306 | 19,133 | 115,439 | |
| Director of Planning, Economic Development and Property | 92,694 | 19,133 | 111,827 | |
| Head of Legal and Democratic Services (Monitoring Officer) | 17,386 | 3,776 | 21,162 | c |
| 2016/17 | £ | £ | £ | |
| Chief Executive | 120,899 | 22,987 | 143,886 | |
| Director of Community Services | 94,363 | 18,944 | 113,307 | |
| Director of Corporate Resources (Section 151 Officer) | 89,149 | 18,089 | 107,238 | |
| Director of Planning, Economic Development and Property | 91,792 | 18,944 | 110,736 | |
| Head of Legal and Democratic Services (Monitoring Officer) | 73,756 | 14,956 | 88,712 | |

The Strategic Leadership Team is made up of the Chief Executive and the three strategic Directors. The remuneration details of these officers and the Monitoring Officer are included in the table above.

Note:

a. Senior officers are remunerated for returning officer duties during elections. The amount of remuneration varies according to the type and number of elections. In 2017/18 the amount payable for returning officer duties was greater than the 2016/17 amount paid, as there was a general election in June 2017.

b. in 2017/18, the Director of Community Services left post on 25 June 2017 so 2017/18 does not include a full year of costs. The new Director of Community Services started on 11 September 2017.

c. in 2017/18, the Head of Legal and Democratic Services (Monitoring officer) left post at the end of June 2017 so 2017/18 does not include a full year of costs. The new Head of Legal and Democratic Services post did not start until April 2018. In the interim period, the monitoring officer role was undertaken by the monitoring officer at Crawley Borough Council. The spend on this interim role is not included in the expenditure totals.

The number of employees, including senior officers, whose remuneration excluding pension contributions was £50,000 or more in bands of £5,000 were;

| Remuneration Band | Number of Employees 2016/17 | Number of Employees 2017/18 |
|--------------------------|------------------------------------|------------------------------------|
| £50,000 - £54,999 | 6 | 6 |
| £55,000 - £59,999 | 6 | 9 |
| £60,000 - £64,999 | 2 | 1 |
| £65,000 - £69,999 | 2 | 1 |
| £70,000 - £74,999 | 2 | 1 |
| £75,000 - £79,999 | 1 | 1 |
| £80,000 - £84,999 | 0 | 0 |
| £85,000 - £89,999 | 1 | 0 |
| £90,000 - £94,999 | 2 | 1 |
| £95,000 - £99,999 | 0 | 1 |
| £100,000 - £104,999 | 0 | 0 |
| £105,000 - £109,999 | 0 | 0 |
| £110,000 - £114,999 | 0 | 0 |
| £115,000 - £119,999 | 0 | 0 |
| £120,000 - £124,999 | 1 | 0 |
| £125,000 - £129,999 | <u>0</u> | <u>1</u> |
| Total number | 23 | 22 |

26 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 | |
|------------------------|-----------------------------------|-----------|-----------------------------------|----------|--------------------------------------|-----------|--|-----------------|
| | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 £000 | 2017/18 £000 |
| £0 - £19,999 | 3 | 3 | 6 | 2 | 9 | 5 | 61 | 36 |
| £20,000 - £39,999 | 3 | 4 | 0 | 0 | 3 | 4 | 96 | 124 |
| £40,000 - £59,999 | 1 | 1 | 0 | 0 | 1 | 1 | 58 | 59 |
| £60,000 - £79,999 | 0 | 2 | 0 | 0 | 0 | 2 | 0 | 149 |
| £80,000 - £99,999 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 81 |
| Total | 7 | 11 | 6 | 2 | 13 | 13 | 215 | 449 |
| Provision | 3 | 2 | 1 | 0 | 4 | 2 | 233 | 71 |
| Total | 10 | 13 | 7 | 2 | 17 | 15 | 448 | 520 |

27 TERMINATION BENEFITS

During 2017/18 the Council terminated 13 posts at a total cost of £449k which was made up of redundancy payments of £273k and other termination costs of £176k.

Costs in 2017/18 include £130k which related to three individuals who worked for the Census ICT partnership. Horsham District Council received contributions from the other partners of £94k resulting in a net cost of £36k. The gross cost is shown in the table above.

The Council's share of redundancy for two officers from Census Revenues and Benefits (hosted by Mid Sussex) are included in the redundancy provision line above in 2017/18. This totals £71k. In 2016/17, the statement included a provision of £233k, relating to four Council officers. The actual costs for the four officers are not included again in the 2017/18 bands.

28 RELATED PARTIES

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

Central Government - has effective control over the general operations of the Council, it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grant receipts outstanding at 31 March 2018 are shown in note 10 (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 2017/18 is shown in note 23.

Senior Officers - are defined as the Chief Executive together with the Directors which together make up the Senior Leadership Team. These Officers have the responsibility of managing the Council and have power to direct or control the major activities of the Council, in particular those involving the expenditure of money. Details of senior officer remuneration are shown in note 25. There were no related party disclosures by senior officers in 2017/18.

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 2017/18 financial year:

| <u>ICT – Hosted by Horsham Council District Council</u> | | Outstanding at 31.03.2018 (due to) / from HDC |
|---|------|---|
| | £000 | £000 |
| Mid Sussex | 473 | 30 |
| Horsham | 402 | 0 |
| Adur & Worthing | 563 | 30 |

| <u>Revenues and Benefits – hosted by Mid Sussex District Council</u> | | Outstanding at 31.03.2018 (payable to MSDC) |
|--|-------|---|
| | £000 | £000 |
| Mid Sussex | 1,279 | 0 |
| Horsham | 1,223 | (77) |
| Adur | 439 | 0 |

Building Control

Horsham District Council provides 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 2017/18 amounted to £309k and £52k was outstanding as at 31 March 2018.

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 2017/18 the costs for each Council were:

| | £000 | Outstanding at 31.03.2018 (due to) / from HDC |
|------------|------|---|
| | £000 | £000 |
| Crawley | 62 | 0 |
| Horsham | 62 | 0 |
| Mid Sussex | 53 | 0 |

Access Officer - shared resource

The Access Officer role was a shared resource utilised by Horsham DC and Crawley BC for part of 2017/18. In 2017/18 the costs for each Council were:

| | £000 | Outstanding at 31.03.2018 (due to) from HDC |
|---------|------|---|
| | £000 | £000 |
| Crawley | 3 | 0 |
| Horsham | 11 | 0 |

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

| | 2016/17 | 2017/18 |
|---|---------------|---------------|
| | £000 | £000 |
| Opening Capital Financing Requirement | 13,255 | 15,992 |
| Capital Investment | | |
| Property, Plant & Equipment | 6,681 | 14,839 |
| Investment Properties | 1,565 | 12,300 |
| Intangible Assets | 11 | 0 |
| Revenue Expenditure Funded from Capital Under Statute | 1,087 | 1,098 |
| Sources of finance | | |
| Capital receipts | (2,095) | (5,968) |
| Government grants and other contributions | (2,905) | (1,688) |
| Direct revenue contributions | (770) | (5,194) |
| Minimum Revenue Provision | (837) | (924) |
| write out prior year unfinanced capital expenditure derecognised | | (67) |
| Closing Capital Financing Requirement | <u>15,992</u> | <u>30,388</u> |
| Explanation of movements in year | | |
| Increase in underlying need to borrowing | 3,574 | 15,387 |
| Minimum Revenue Provision | (837) | (924) |
| write out prior year unfinanced capital expenditure derecognised | | (81) |
| write back revenue provision on unfinanced capital expenditure derecognised | | 15 |
| Increase/ (decrease) in Capital Financing Requirement | <u>2,737</u> | <u>14,397</u> |

30 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 career average scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

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 2017/18 these amounted to £101k (£101k in 2016/17) representing 1% of pensionable pay (1% in 2016/17).

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.

At the start of 2017/18, the Council had a shared service arrangement with Mid Sussex and Adur District Councils for the Revenues and Benefits service and with the same authorities and Worthing Borough Council for Census information technology service.

During 2017/18, the Census Information Technology service hosted by Horsham ended on 31 May 2017. The IAS19 report covering the period 1 April 2017 to 31 May 2017 was calculated on a 'no liability' basis, with all assets and liabilities transferring to the respective Councils. Each partner shows its share of the Census ICT pension assets and liabilities in the account for the first two months of 2017/18.

During 2017/18, Adur District Council left the Census Revenues and Benefits Service, hosted by Mid Sussex, on 31 September 2017. The IAS19 report covering the period 1 April 2017 to 30 September 2017 was calculated on a 'no liability' basis, with all assets and liabilities transferring to Adur and the remaining partners in Census respectively. Each

of the three partners shows its share of the Census Revenues and Benefits pension assets and liabilities in the account for the first six months of 2017/18.

From 1 October 2017, the 'new' Census Revenues and Benefits remained hosted by Mid Sussex District Council. The IAS19 report covering the period 1 October 2017 to 31 March 2018 was calculated on a 'no liability' basis, with all assets and liabilities transferring to the respective Councils. Each partner shows its share of the pension assets and liabilities in the accounts.

On 31 March 2018, all employees from Census Revenues and Benefits transferred to Mid Sussex District Council as the partnership finished on 31 March 2018 and the Joint Committee ceased.

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.

| <u>Comprehensive Income and Expenditure Statement</u> | 2016/17 | 2017/18 |
|---|----------------|----------------|
| | £000 | £000 |
| <u>Cost of Services</u> | | |
| - current service cost | (3,162) | (4,688) |
| - past service costs | (0) | (342) |
| - effect of settlements | (0) | (1,534) |
| Total Service Cost | (3,162) | (6,564) |
| <u>Financing and Investment Income and Expenditure</u> | | |
| Interest income on planned assets | 4,767 | 4,225 |
| Interest cost on defined benefit obligation | (4,844) | (4,212) |
| Total Net Interest | (77) | 13 |
| Effect of Business Combinations – cessation surplus | 0 | 2,084 |
| Total Post Employment Benefit Charged to the Surplus or deficit on the provision of services | (3,239) | (4,467) |
| | | |
| <u>Re-measurements of the Net Defined Liability</u> | | |
| Actuarial gains arising from changes in demographic assumptions | 4,132 | 0 |
| Actuarial gains / (losses) arising from changes in financial assumptions | (25,030) | 2,734 |
| Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | 701 | 94 |
| Return on assets excluding amounts included in net interest | 24,856 | 7,217 |
| Total re-measurements recognised in other comprehensive income | 4,659 | 10,045 |
| Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | 1,420 | 5,578 |
| | | |
| <u>Movement in Reserves Statement</u> | | |
| Reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the Code | (3,239) | (4,467) |
| | | |
| Actual amounts charged to the General fund balance for pensions in the year | | |
| Employers contributions payable to the scheme | (2,501) | (2,690) |

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

| | 2016/17 Census £000 | 2016/17 HDC £000 | 2017/18 Census new £000 | 2017/18 Census old £000 | 2017/18 HDC £000 |
|---|---------------------------|------------------------|----------------------------------|----------------------------------|------------------------|
| Present value of liabilities - Funded | (7,747) | (153,443) | 0 | 0 | (157,145) |
| Present value of liabilities - Un funded | 0 | (1,756) | 0 | 0 | (1,600) |
| Fair value of plan assets | 8,153 | 156,838 | 0 | 0 | 169,058 |
| Net asset (liability) arising from defined benefit obligation | 406 | 1,639 | 0 | 0 | 10,313 |

| Funded Liabilities - LGPS | 2016/17 Census £000 | 2016/17 HDC £000 | 2017/18 Census new £000 | 2017/18 Census old £000 | 2017/18 HDC £000 |
|---|---------------------------|------------------------|----------------------------------|----------------------------------|------------------------|
| Reconciliation of present value of the scheme liabilities: | | | | | |
| Balance at 1 April | (6,056) | (132,650) | 0 | (7,747) | (155,199) |
| Adjustment to Census partnership | 0 | 0 | 204 | (118) | 0 |
| Current service cost | (200) | (2,963) | (127) | (114) | (4,447) |
| Interest cost | (221) | (4,623) | (56) | (84) | (4,072) |
| Contributions by scheme participants | (50) | (747) | (21) | (22) | (751) |
| Actuarial gains and losses | (1,309) | (18,888) | 0 | 38 | 2,791 |
| Benefits paid | 89 | 4,672 | (0) | 39 | 4,461 |
| Past service costs | 0 | 0 | | (64) | (278) |
| Liabilities distributed on settlements | 0 | 0 | 0 | 8,072 | 0 |
| Liabilities assumed in a business combination | 0 | 0 | 0 | 0 | (1,250) |
| Balance at 31 March | (7,747) | (155,199) | 0 | 0 | (158,745) |
| Reconciliation of fair value of the scheme assets: | | | | | |
| Balance at 1 April | 6,668 | 130,163 | 0 | 8,153 | 156,838 |
| Adjustment to Census partnership | 0 | 0 | (205) | 101 | 0 |
| Interest income on planned assets | 242 | 4,525 | 47 | 91 | 4,087 |
| Return on planned assets (excluding amounts in net interest) | 1,132 | 23,724 | (24) | 226 | 7,015 |
| Employer contributions | 150 | 2,351 | 64 | 93 | 2,533 |
| Contributions by scheme participants | 50 | 747 | 21 | 22 | 751 |
| Benefits paid | (89) | (4,672) | 0 | (39) | (4,461) |
| Assets distributed on settlements | 0 | 0 | 96 | (8,646) | (1,039) |
| Assets acquired in a business combination | 0 | 0 | 0 | 0 | 3,334 |
| Balance at 31 March | 8,153 | 156,838 | 0 | 0 | 169,058 |

LGPS Assets comprised:

| | 2017 | | | 2018 | | | |
|--|--------------|----------------|-------------|------------|------------|----------------|-------------|
| | Census | HDC | Total | Census new | Census old | HDC | Total |
| | £0 | £0 | % of assets | £0 | £0 | £0 | % of assets |
| Equity Securities: | | | | | | | |
| Consumer | 1,159.90 | 22,312.20 | 14.20% | 0 | 0 | 24,.60 | 14.20% |
| Manufacturing | 745.2 | 14,335.10 | 9.10% | 0 | 0 | 15,452.00 | 9.10% |
| Energy & Utilities | 393.7 | 7,574.30 | 4.80% | 0 | 0 | 8,164.40 | 4.80% |
| Financial Institutions | 1,328.00 | 25,545.20 | 16.30% | 0 | 0 | 27,535.60 | 16.30% |
| Health & Care | 564.9 | 10,867.00 | 6.90% | 0 | 0 | 11,713.70 | 6.90% |
| Information Technology | 1,114.20 | 21,432.30 | 13.70% | 0 | 0 | 23,102.20 | 13.70% |
| Other | 375.6 | 7,226.00 | 4.60% | 0 | 0 | 7,789.00 | 4.60% |
| Debt Securities: | | | | | | | |
| UK Government | 151.2 | 2,908.20 | 1.90% | 0 | 0 | 3,134.80 | 1.90% |
| Private Equity: | | | | | | | |
| All | 350.5 | 6,742.20 | 4.30% | 0 | 0 | 7,267.60 | 4.30% |
| Real Estate: | | | | | | | |
| UK Property | 642.9 | 12,368.40 | 7.90% | 0 | 0 | 13,332.10 | 7.90% |
| Investment Funds & Unit Trusts: | | | | | | | |
| Bonds | 1,021.60 | 19,652.30 | 12.50% | 0 | 0 | 21,183.50 | 12.50% |
| Other | 95.6 | 1,838.40 | 1.20% | 0 | 0 | 1,981.60 | 1.20% |
| Cash & cash Equivalents: All | 209.8 | 4,036.40 | 2.60% | 0 | 0 | 4,350.90 | 2.60% |
| | 8,153 | 156,838 | 100% | 0 | 0 | 169,058 | 100% |

All scheme assets except private equity are quoted prices in active markets.

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The current position is a surplus of £10.3m (£2.045m at 31 March 2017) which has an impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £160m.

Statutory arrangements for funding mean that the financial position remains healthy as contributions continue to be made over the working life of current employees. The total contributions expected by Hymans Robertson LLP the scheme's actuaries that are to be made to the Local Government Pension scheme by the council in the year to 31 March 2018 is £2.20m (£2.39m at 31 March 2017).

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 31 March 2016.

The principal assumptions used by the actuary have been:

| | | <u>2016/17</u> | <u>2017/18</u> |
|--|-------|----------------|----------------|
| Long term expected rate of return on assets in the scheme: | | | |
| Mortality assumptions: | | | |
| Longevity at 65 for current pensioners: | Men | 23.6 | 23.6 |
| | Women | 25.0 | 25.0 |
| Longevity at 65 for future pensioners: | Men | 26.0 | 26.0 |
| | Women | 27.8 | 27.8 |
| Rate of inflation / pension | | 2.4% | 2.4% |
| Rate of increase in salaries | | 3.1% | 3.1% |
| Rate of discounting scheme liabilities | | 2.6% | 2.7% |

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.

The estimate of the defined benefits obligation is sensitive to the actuarial assumptions. The sensitivity analyses in Note 3 have been determined based on possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The estimations in the sensitivity analyses have followed the accounting policies for the scheme.

31 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

International Accounting Standard 37 requires the Council to disclose contingent liabilities and assets. These arise from past events that might result in an obligation or benefit to the Council.

A number of NHS Trust organisations are making claims nationally for charitable relief in respect of Non-domestic rates. The Local Government Association is seeking legal advice on this matter as it believes the claims are unfounded. However, should it be agreed that the relief is applicable then there will be a potential loss in rates yield for the Council. The liability for Horsham is hard to predict as it will depend on what local NHS bodies fulfil any criteria for relief.

32 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

Credit Risk: Investments

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 detailed 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 2017/18 was £15m. The limit per institution, excluding UK Government or Local Authority, for unsecured investment was £2.5m. The limit for long term investment was £12m. The actual performance against Treasury Management Strategy is reviewed by the Audit Committee of the Council annually.

The analysis below summarises the Council's exposure to risk using credit ratings which are derived from historic default rates for different categories of instruments.

| | 31.03.2017 | 31.03.2018 |
|---------------------------|----------------------|----------------------|
| | £000 | £000 |
| AAA rated counterparties | 14,322 | 11,288 |
| AA rated counterparties | 6,908 | 4,874 |
| A rated counterparties | 6,415 | 0 |
| BBB rated counterparties | 4,453 | 747 |
| Unrated Pooled funds | 9,980 | 15,759 |
| Unrated Local Authorities | <u>8,000</u> | <u>5,033</u> |
| Total | <u>50,078</u> | <u>37,701</u> |

Credit Risk: Trade Receivables

The Council raises charges for a wide range of services that meet the definition of a financial asset. The Council does not generally allow credit for its trade debtors, such that £1.158m of the £1.9m balance is past its due date for payment.

The past due amount can be analysed as follows:

| Age | 31.03.2017 | 31.03.2018 |
|------------------------|------------|--------------|
| | £000s | £000s |
| Less than three months | 288 | 797 |
| Three to six months | 115 | 33 |
| Six months to one year | 18 | 93 |
| More than one year | 75 | 235 |
| Total | <u>496</u> | <u>1,158</u> |

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's Treasury Management Strategy sets a benchmark of £3m being available within a three month period 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:

| | 31.03.2017 | 31.03.2018 |
|----------------------------|---------------|---------------|
| | £000s | £000s |
| Less than one year | 11,577 | 17,720 |
| Between one and two years | 4000 | 0 |
| Between two and five years | 0 | 0 |
| More than five years | 0 | 0 |
| Total | <u>15,577</u> | <u>17,720</u> |

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

Investments classed as "loans and receivables" and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as "available for sale" will be reflected in Other Comprehensive Income and Expenditure.

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 direct link to 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 also holds variable net asset value money market funds and pooled funds whose price may be affected by interest rate changes indirectly as the funds comprise some fixed rate instruments.

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 31 March 2018 the financial effect would be:

| | £000 |
|---|---------------|
| Increase in income receivable | (178) |
| Impact on surplus and deficit on provision of services | (178) |
| Decrease in fair value of available for sale financial assets | 252 |
| Impact on Comprehensive Income and Expenditure | 74 |
| Decrease in fair value of loans and receivables* | 31 |
| Decrease in fair value of fixed rate borrowing* | (40) |

*No impact on Comprehensive Income and Expenditure.

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

Market Risk: Price Risk

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property pooled funds of £5m. A 5% fall in commercial property prices would result in a £0.2m charge to Other Comprehensive Income & Expenditure – this would have no impact on the Surplus or Deficit on the Provision of Services until the investment was sold.

The Council's investment in a pooled equity funds is subject to the risk of falling share prices. This risk is limited by the Council's maximum exposure to pooled funds including equities of £12m. A 5% fall in share prices would result in a £0.25m charge to Other Comprehensive Income & Expenditure – this would have no impact on the Surplus or Deficit on the Provision of Services until the investments were sold.

COLLECTION FUND

| 2016-17 £'000 | | | 2017-18 £'000 | | |
|---|---------------------|------------------|---|---------------------|------------------|
| Business Rates £000 | Council Tax £000 | Total £000 | Business Rates £000 | Council Tax £000 | Total £000 |
| INCOME | | | INCOME | | |
| 0 | (91,940) | (91,940) | 0 | (97,167) | (97,167) |
| (42,229) | 0 | (42,229) | (39,527) | 0 | (39,527) |
| Transfers from General Fund | | | Transfers from General Fund | | |
| 0 | (2) | (2) | 0 | (1) | (1) |
| 185 | 0 | 185 | (668) | 0 | (668) |
| <u>(42,044)</u> | <u>(91,942)</u> | <u>(133,986)</u> | <u>(40,195)</u> | <u>(97,168)</u> | <u>(137,363)</u> |
| EXPENDITURE | | | EXPENDITURE | | |
| Apportionment of Previous Year Surplus / (Deficit) | | | Apportionment of Previous Year Surplus / (Deficit) | | |
| (640) | 160 | (480) | 280 | 182 | 462 |
| (160) | 1,014 | 854 | 70 | 1,173 | 1,243 |
| 0 | 126 | 126 | | 145 | 145 |
| <u>(800)</u> | <u>0</u> | <u>(800)</u> | <u>350</u> | <u>0</u> | <u>350</u> |
| (1,600) | 1,300 | (300) | 700 | 1,500 | 2,200 |
| Precepts, Demands and Shares | | | Precepts, Demands and Shares | | |
| 16,563 | 10,919 | 27,482 | 16,817 | 11,555 | 28,372 |
| 4,141 | 70,309 | 74,450 | 4,204 | 74,871 | 79,075 |
| 0 | 8,667 | 8,667 | | 9,178 | 9,178 |
| <u>20,704</u> | <u>0</u> | <u>20,704</u> | <u>21,021</u> | <u>0</u> | <u>21,021</u> |
| 41,408 | 89,895 | 131,303 | 42,043 | 95,604 | 137,646 |
| Charges to Collection Fund | | | Charges to Collection Fund | | |
| 309 | 277 | 586 | 667 | 389 | 1,056 |
| 139 | 89 | 228 | (555) | (201) | (756) |
| 163 | 0 | 163 | (708) | 0 | (708) |
| <u>179</u> | <u>0</u> | <u>179</u> | <u>180</u> | <u>0</u> | <u>180</u> |
| 790 | 366 | 1,156 | (417) | 188 | (229) |
| <u>40,598</u> | <u>91,561</u> | <u>132,159</u> | <u>42,326</u> | <u>97,291</u> | <u>139,617</u> |
| (1,446) | (381) | (1,827) | 2,131 | 123 | 2,254 |
| <u>1,356</u> | <u>(2,785)</u> | <u>(1,429)</u> | <u>(90)</u> | <u>(3,166)</u> | <u>(3,256)</u> |
| <u>(90)</u> | <u>(3,166)</u> | <u>(3,256)</u> | <u>2,041</u> | <u>(3,042)</u> | <u>(1,001)</u> |
| (Surplus) / Deficit carried forward 31 March | | | (Surplus) / Deficit carried forward 31 March | | |

NOTES TO THE COLLECTION FUND

The Collection Fund is an agent's statement which represents the statutory requirement for each billing authority to maintain a separate Collection Fund. The statement 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. Collection Fund surpluses or deficits declared by the billing authority are apportioned to the relevant precepting bodies in the subsequent financial year.

The accounts have been prepared on an accruals basis.

1 COUNCIL TAX

The Council Tax is based upon property values as at 1 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 | 2 |
| A | up to 40,000 | 6/9 | 930 |
| B | 40,001-52,000 | 7/9 | 3,061 |
| C | 52,001-68,000 | 8/9 | 9,223 |
| D | 68,001-88,000 | 1 | 11,640 |
| E | 88,001-120,000 | 11/9 | 11,952 |
| F | 120,001-160,000 | 13/9 | 10,759 |
| G | 160,001-320,000 | 15/9 | 11,760 |
| H | over 320,000 | 2 | 1,469 |
| | COUNCIL TAX BASE | | 60,796 |

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

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 31 March 2018 was £112,954k and the standard National Non-Domestic Rate multiplier for the year was £0.479

3 COUNCIL TAX AND BUSINESS RATES PRECEPTS AND DEMANDS

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.

| | 31 March 2018 | | |
|--|-----------------|----------------|---------|
| | £000 | | |
| Accumulated (Surplus) / deficit at 31.03.2018 | | (1,001) | |
| Apportionment based on 2017/18 precepts and demands: | | | |
| Deficit / (surplus) | | | |
| | <u>Business</u> | <u>Council</u> | |
| | <u>Rates</u> | <u>Tax</u> | Total |
| | £000 | £000 | £000 |
| Horsham District Council | 816 | (368) | 449 |
| West Sussex County Council | 204 | (2,382) | (2,178) |
| Sussex Police Authority | - | (292) | (292) |
| Central Government | 1,020 | - | 1,020 |
| | 2,041 | (3,042) | (1,001) |
| | 2,041 | (3,042) | (1,001) |

GLOSSARY

| | |
|--|---|
| BALANCES | The amounts remaining at the year-end on the various funds of the Council. |
| CAPITAL EXPENDITURE | 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. |
| CAPITAL RECEIPTS | Receipts from the sale of property, plant and equipment e.g. land, building etc. |
| CENTRAL SUPPORT SERVICES | The expenditure on the central administration of the Council, including the cost of accommodation. |
| COLLECTION FUND | A statutory fund maintained by a billing authority that is used to record local taxes and non-domestic rates collected by the Council, payments to precepting authorities, central government and its own general fund. |
| COUNCIL TAX | A locally determined charge based on property values and levied by a local authority to enable it to provide its services. |
| CREDITORS | Individuals and organisations to which the Council owes money. |
| DEBTORS | Individuals and organisations who owe money to the Council. |
| DEPRECIATION | A charge to a revenue account to reflect the reduction in the useful economic life of a fixed asset. |
| earmarked reserves | Amounts set aside for specific purposes falling outside the definition of provisions. |
| FAIR VALUE | Amount for which an asset could be sold or liability transferred in an orderly transaction between market participants at the measurement date. In most cases this is the actual price paid. |
| FINANCIAL ASSET | A contractual right to receive economic benefits such as cash or right to receive cash or right to favourably exchange a financial asset/liability. |
| FINANCIAL INSTRUMENT | A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments |
| FINANCIAL LIABILITY | A contractual obligation to transfer economic benefits such as an obligation to pay over cash or unfavourably exchange a financial asset/liability. |
| FINANCIAL REPORTING STANDARDS | Accounting practice recommended for adoption by the accountancy profession e.g. in relation to public reporting, accounting policies etc. |
| NON-CURRENT ASSET | A tangible asset that yields benefit to a council and the services it provides for a period of more than one year. |
| GENERAL FUND | 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. |
| IAS | International Accounting Standard. |
| MINIMUM REVENUE PROVISION (MRP) | The minimum amount that must be charged to a council's revenue account to be set aside to pay back debt. |
| NATIONAL NON-DOMESTIC RATES (NDR) | 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. |
| PRECEPT | An amount charged to the Collection Fund to finance services provided by another authority e.g. County and parish councils. |
| PRECEPTING AUTHORITIES | Those authorities which are able to raise a precept. |
| PROVISION | A fund to provide for liabilities or losses that are likely to be incurred but the dates and amounts are uncertain. |
| PUBLIC WORKS LOAN BOARD (PWL B) | A statutory body operating within Central Government responsible for lending money to local authorities and other bodies. |
| SECTION 106 (S106) | 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. |

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Report to Audit Committee

12 July 2018
By the Director of Corporate Resources
INFORMATION REPORT



Not exempt

Treasury Management Activity and Prudential Indicators 2017/18

Executive Summary

This report covers treasury activity and prudential indicators for 2017/18. At 31 March 2018, the Council's external debt was £4m (£4m at 31 March 2017) and its investments totalled £37.7m (£50.1m at 31 March 2017) including call accounts and Money Market Funds.

During 2017/18, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.911m (£0.605m in 2017/18) was earned on investments, an average return of 1.6% (1.2% in 2016/17). There was one instance when the single institution limit of £2.5m was breached overnight; otherwise all limits and indicators were within estimates.

Recommendations

The Committee is recommended to:

- i) Note the Treasury Management stewardship report for 2017/18.
- ii) Note the actual prudential indicators for 2017/18.

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 2017/18 in accordance with the requirements of the relevant CIPFA Codes of Practice.

Background Papers

"Treasury Management Strategy 2017/18" - Audit Committee 4 January 2017
"Budget for 2017/18 and Council Tax" - Council 15 February 2017
"Budget for 2018/19 and Council Tax" - Council 21 February 2018

Consultation: Arlingclose Ltd – the Council's Treasury Management advisers

Wards affected: All

Contact: Julian Olszowka, Group Accountant (Technical), 01403 215310

Background Information

1 Introduction

- 1.1 This report covers treasury management activity and prudential indicators for 2017/18. 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.
- 1.2 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 management decisions are taken in accordance with good professional practices. This report compares the approved indicators with the outturn position for 2017/18. Actual figures have been taken from or prepared on a basis consistent with the Council's Statement of Accounts.
- 1.3 The original prudential indicators for 2017/18 together with Treasury Management Strategy 2017/18 were agreed by Council on 15 February 2017 having been approved by this Committee on 4 January 2017.
- 1.4 The regulatory context of treasury management and capital finance is about to be changed by the revision of the CIPFA Treasury Management and Prudential Codes and new guidance from the MHCLG (Ministry of Housing, Communities and Local Government). The Council also had to deal with the introduction of the MiFID II directive. The effects of these changes are discussed in Appendix 1

2 The Council's Capital Expenditure and Financing 2017/18

- 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 include revisions to the original indicators approved by the Council on 21 February 2018 as a part of the budget report.

| 2017/18 | Actual £000 | Estimate £000 | Variance £000 |
|---|----------------|------------------|------------------|
| Total capital expenditure* | 28,237 | 31,389 | (3,152) |
| Resourced by: | | | |
| Capital receipts and third party contributions | (6,990) | (7,958) | 968 |
| Capital grants | (666) | (513) | (153) |
| Revenue reserves** | (5,194) | (7,112) | 1,918 |
| Unfinanced capital expenditure (additional need to borrow) | 15,387 | 15,806 | (419) |

*Capital expenditure here differs from capital outturn report by capitalised salaries

** Includes use of New Homes Bonus

- 2.2 The capital spend in 2017/18 was under the budget as revised in the 2018/19 budget report. The underspend resulted in a reduced need for financing from revenue reserves and capital receipts and contributions than estimated. The overall unfinanced capital spend was just slightly below estimate.

3 The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow is termed the Capital Financing Requirement (CFR). 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.

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 2017/18 MRP Policy (as required by MHCLG Guidance) was approved on 15 February 2017 as a part of the 2017/18 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. The movement in the CFR differs from the estimate mostly due to the unfinanced capital expenditure being under the estimate as shown above.

| Capital Financing Requirement | Actual £000 | Estimate £000 | Variance £000 |
|--------------------------------------|----------------|------------------|------------------|
| Opening balance 1 April 2017 | 15,992 | 15,989 | 3 |
| plus unfinanced capital expenditure | 15,387 | 15,806 | (419) |
| less Minimum Revenue Provision | (991) | (924) | (67) |
| Closing balance 31 March 2018 | 30,388 | 30,871 | (483) |

4 Treasury Position at 31 March 2018

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 other available funds instead, sometimes termed under-borrowing. The Council is under-borrowed as its external debt amounts to only £4m.

4.2 Although the Council is under-borrowed relative to its CFR, it also holds investments and the summary treasury position on the 31 March 2018 compared with the previous year is shown below. This is a snapshot of investments on the date and will not necessarily be equal to the whole year average figures reported below.

| Treasury position | 31 March 2018 | | 31 March 2017 | |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| | Principal £m | Average Rate | Principal £m | Average Rate |
| Fixed Interest Rate Debt | 4.0 | 3.4% | 4.0 | 3.4% |
| Investments | (37.7) | 1.5% | (50.1) | 1.5% |
| Net borrowing position | (33.7) | | (46.1) | |

4.3 Returns continued at historically low levels during 2017/18 reflecting the continuing low interest rates being offered by counterparties who are a good credit risk. The current outlook points to a continuation of relatively low rates with modest increases expected in the medium term. The use of pooled funds including a diversified selection of equity, bonds and property has lifted income to some extent but their use is limited by the desired overall risk profile of the Council's investments.

5 Prudential Indicators

- 5.1 **Gross Debt and the CFR** - In order to ensure that borrowing levels are prudent over the medium term the Council's external debt must only be for a capital purpose. Gross debt should not therefore, except in the short term, exceed the CFR for 2017/18 plus the expected CFR movement over 2018/19 and 2019/20. As external debt was £4m and the CFR is £30m and in the budget plans of the Council it is not projected to decrease over the relevant future period the Council has complied with this prudential indicator.
- 5.2 The **Authorised Limit** is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The Council set the Authorised Limit at £15m for 2017/18. The table below demonstrates that during 2017/18 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. This indicator was set at £4m. Gross borrowing was at £4m for the majority of the year except for a period from late July to late October when temporary borrowing was used at the time of the purchase of the Forum retail units. The temporary borrowing peaked at £10m giving a maximum borrowing position of £14m.
- 5.4 **Actual financing costs as a proportion of net revenue stream** - This indicator shows the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. This is a gauge of the affordability of capital spend. As shown in the table below, the actual indicator was within the estimate. Financing costs were reduced compared to the estimate due to higher than estimated investment income.

| | 2017/18 |
|---|------------------------------|
| Authorised Limit | £15m |
| Operational Boundary | £4m |
| Maximum gross borrowing position in the year | £14m |
| Minimum gross borrowing position in the year | £4m |
| Financing costs as a proportion of net revenue stream | Actual 1.2% Estimate 2.0% |

- 5.5 **Upper limits on variable and fixed rate exposure** – These indicators identify maximum limits for variable and fixed interest rate exposures. The table below shows the actual maximums in 2017/18. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. The variable exposure is a net investment position and thus appears as a negative figure as the indicator shows the net debt position.

| | Limit | Actual | Met? |
|---------------------------------------|-------|--------|------|
| Upper limit on fixed rate exposure | £15m | £4m | ✓ |
| Upper limit on variable rate exposure | £0m | -£16m | ✓ |

- 5.6 **Maturity structures of borrowing** - These gross limits are set to reduce the Council's exposure to large fixed rate loans falling due for refinancing. As the Council only has one longer term debt and has set the percentage range to allow it freedom to refinance the debt there is no danger of not meeting this indicator. The table below shows the 2017/18 estimates and the actual position.

| Maximum percentage of borrowing in each age category | Original Indicator | Actual Position |
|--|--------------------|-----------------|
| Maturity Structure of fixed borrowing | | |
| Under 12 months | 100% | 0% |
| 12 months to 2 years | 100% | 100% |
| 2 years to 5 years | 100% | 0% |
| 5 years to 10 years | 100% | 0% |
| 10 years and above | 100% | 0% |

- 5.7 **Total Principal Funds Invested over 364 days** – This limit contains the Council's exposure to the possibility of loss that might arise as a result of it having to seek early repayment or redemption of investments. The actual position was well within the indicator.

| 2017/18 | Indicator | Actual Position |
|--|-----------|-----------------|
| Maximum principal sums invested > 364 days | £12m | £4m |

Economic and treasury management context for 2017/18

- 5.8 The Council's treasury management activities are critically affected by what is happening in the general economy which is subject to continuing uncertainty. The Council has engaged Arlingclose Ltd to advise on various aspects of Treasury Management and a part of that advice, a commentary on the economic background and the finance sector during 2017/18, is included as Appendix 2 to this report.

Debt management activity during 2017/18

- 5.9 No new long term borrowing was undertaken to add to the Council's £4m loan from the Public Works Loan Board borrowed on 23 April 2009 at 3.38% repayable on 31st March 2019. Temporary borrowing of £10m was taken out in late July when the Forum Retail Units' purchase was imminent. All temporary borrowing was repaid by the end of October.
- 5.10 As the CFR shown above is £30m the Council is using its internal resources in lieu of borrowing. This lowers overall treasury risk by reducing both external debt and temporary investments and was judged to be the best way of funding capital expenditure. Current borrowing costs are historically low (e.g. PWLB 50 year loan around 2.5%) and the Council's advisers predict that they will not be increasing significantly in the next three years.

6 Investment activity in 2017/18

- 6.1 The Council's objectives 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 Treasury Management Code of Practice and the MHCLG Investment guidance. These require 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 apart from breach of single institution limit detailed below.
- 6.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.3 The Council's longer term cash balances comprise revenue and capital reserves and its core cash resources are shown in the table below. The Council is borrowing internally to cover its CFR which reduces the funds to be invested by £26m (2015/16 £12m). It was judged prudent to continue internal borrowing in the year as any external borrowing would have had to have been invested at a lower rate than the borrowing rate producing a borrowing cost.

| Balance Sheet Resources | 31 March 2018 £m | 31 March 2017 £m | 31 March 2016 £m |
|---------------------------------|---------------------|---------------------|---------------------|
| Revenue reserves | 20.9 | 20.0 | 17.3 |
| Other reserves and provisions | 17.2 | 14.4 | 3.5 |
| Usable capital receipts | 1.0 | 5.3 | 5.8 |
| Unapplied capital contributions | 17.4 | 13.2 | 8.6 |
| Working capital | 7.2 | 8.6 | 5.7 |
| Total | 63.7 | 61.5 | 40.9 |

- 6.4 **Yield** - The investment income budget for the year 2017/18 was £0.593m (2017/18 £0.275m). The actual interest received was £0.911m (2015/16 £0.605m). Cash balances were above budget due to slipping of capital spend, revenue underspending and higher receipts of developer contributions. Pooled funds boosted income while otherwise the returns available from 'good' quality counterparties remained at historic lows. An overall return of 1.6% (1.2% 2016/17) was achieved; the benchmark, which is the average LIBID 7 day rate, was 0.21% (0.20% in 2016/17).
- 6.5 **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. The portfolio average credit rating was a minimum of A+ in the year which is two notches above the benchmark.

- 6.6 **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 set a benchmark of the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. For 2017/18 the benchmark amount was £3m. The actual funds available were well in excess of the benchmark for the whole year; the lowest amount available overnight was £2.6m with an additional £9.4m available within a week.
- 6.7 **Compliance with strategy** – There was an instance when the limit on single institution investments was breached. While cash in the current account is not strictly an investment within the meaning of the MHCLG guidance and the CIPFA Code, it is still a credit exposure to the bank and is therefore reported here. The circumstances are detailed below.
- 6.8 On 2nd January the Council's balance with its own bank NatWest was £2.63m in total which exceeded the £2.5m single institution limit. The limit was exceeded due to a miscalculation in the necessary external investment of the Council Tax and Business Rates income received on that day. On the first working day of the month the Council receives over £8m in direct debt income which has to be balanced against outgoings to leave a predicted balance for the day. The position was rectified the next morning when the error was identified.
- 6.9 **Unrated Pooled funds** - 2017/18 was the second year that unrated pooled funds comprising equity, bonds and property were used. Just under £16m is invested in these funds which yielded £0.58m equating to around 3.7% which is significantly more than the other investments available. An increased return generally brings an increase in risk and in this case the risk is to the capital value of the investments and at the end of the year the capital value of these investments was £280,000 below the initial investment. Late 2017 and early 2018 had seen increased volatility especially in equities and values had seesawed with the end of March 2018 a particular low point. By the end of May 2018, the capital values had rebounded showing no significant gain or loss. However, it should be remembered that these investments are longer term so the capital losses should not be overemphasised as the Council will hold the funds through periods of volatility.
- 7 **Outcome of consultations**
- 7.1 The views of the Council's treasury management consultants, Arlingclose Ltd, have been incorporated in all aspects of the above report.
- 8 **Resource consequences**
- 8.1 This report provides information only; no staffing or financial resources are required as a result of it.
- 9 **Other considerations**
- 9.1 There are no consequences in respect of legal, Crime & Disorder; Human Rights; Equality & Diversity and Sustainability.

Appendix 1

Revised CIPFA Codes: CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

In the 2017 Treasury Management Code the definition of ‘investments’ has been widened to include both financial assets and non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy.

MHCLG Investment Guidance and Minimum Revenue Provision (MRP): In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called “loans” (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

The definition of prudent MRP has been changed to “put aside revenue over time to cover the CFR”; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

MiFID II: As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could “opt up” to professional client status, providing certain criteria as to size of investment and expertise were met.

The Council has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Appendix 2

Economic Background in 2017/18: 2017/18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates.

In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

Financial markets: The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling

back to 1.35% at year-end. 20 year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

Credit background: The most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).

Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.

Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.

Report to Audit Committee

12th July 2018

By the Director of Corporate Resources

INFORMATION REPORT



Horsham
District
Council

Not Exempt

Risk Management ~ Quarterly 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.

Recommendations

That the Committee is recommended to:

- i) Note the contents of this report.

Reasons for Recommendations

As part of good governance, it is important that this document is considered by Members.

Background Papers

Covalent Performance Management System / Corporate Risk Register

Wards affected: All

Contact: Julie McKenzie, Project Assurance Manager 01403-215306

Background Information

1 Introduction and Background

- 1.1 The Audit 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 (see 3.1 and 3.2 below).

2 Relevant Council Policy

2.1 The Council's Risk Management Policy is detailed in the Council's Risk Management Toolkit. The Council's Risk Management Strategy is a component part of the Policy, and this document sets out to achieve the following objectives:

- Fully integrate risk management into the culture of the Council and its strategic and service planning processes;
- Ensure that the risk management framework is understood and that ownership and accountability for managing risks is clearly assigned;
- Ensure the benefits of risk management are realised through maximising opportunities and minimising threats;
- Ensure consistency throughout the Council in the management of risk.

3 Details

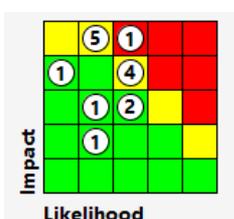
3.1 Corporate Risk Register

The Senior Leadership Team has reviewed the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix1).

Since the last report one new risk has been added:

| | |
|--------|--|
| CRR01c | Decrease in Rateable Value due to several large buildings being redeveloped and coming off the RV list |
|--------|--|

The Corporate Risk profile is shown in the following heat map which shows the total number of risks in each segment. The red / amber / green zones are in accordance with the Council's risk appetite.



There is one risk which is currently considered to be high, nine medium risks and five low risks. The high risk area relates to the following:

| | |
|--------|--|
| CRR01b | Funding from Government is less generous than assumed in the Medium Term Financial Strategy (MTFS) from 2020 |
|--------|--|

Please see the risk register in Appendix 1 which provides full details of all risks on the “live” register together with details of the control actions and responsible officers.

Two risks have now been mitigated and the Senior Leadership Team has confirmed that these should be removed. These are:

| | |
|-------|--|
| CRR24 | Failure to successfully roll out the new bin collection service. There are multiple risks around late delivery; cost impact and reputation |
| CRR27 | Transition from current to new Chief Executive takes longer than expected; changes in corporate strategy. |

3.2 Departmental Risk Register

Departmental risk registers have been reviewed and updated.

4 Outcome of Consultations

4.1 Officers who are responsible for control actions and the Senior Leadership Team have been consulted in updating the Corporate Risk Register.

5 Other Courses of Action Considered but Rejected

5.1 Not applicable.

6 Financial Consequences

6.1 There are no financial consequences.

7 Legal Consequences

7.1 There are no legal consequences.

8 Staffing Consequences

8.1 There are no staffing consequences.

9 Risk Assessment

9.1 The report provides an update on the Council’s corporate risks and how these are being managed by the Senior Leadership Team. See Appendix 1 for the latest version of the Council’s Corporate Risk Register.

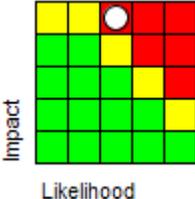
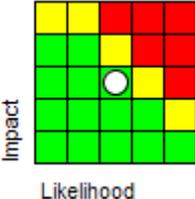
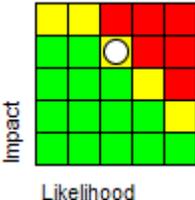
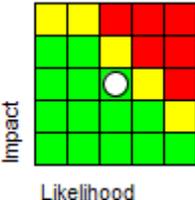
10 Other Considerations

- 10.1 Risk management encompasses all risks within the organisation, including strategic, operational, and project/change risks. This includes consideration of Crime & Disorder; Human Rights; Equality & Diversity; and Sustainability as appropriate.

Appendix 1 Corporate Risk Report June 2018

Risks ordered by RAG not numerically

Generated on: 15 June 2018

| Risk Code & Description | Effect | Risk Owner | Current Risk Matrix | Control Action | Control Action Owner | Status | Target Risk Matrix | Quarterly Update |
|--|--|------------|---|---|----------------------|--------|---|--|
| <p>CRR01b Financial Cause: The Council is reliant on Central Controlled Government funding (eg. Business Rates). Risk: (ii) Funding from Government is less generous than assumed in the MTFS from 2020</p> | <p>Reductions in funding Adverse effect on morale Financial Failure to achieve agreed objectives</p> | Jane Eaton |  | CRR.01b.1 Continue to keep a watching brief | Dominic Bradley | ▶ |  | <p>June 2018 update:</p> <p>Uncertainty beyond 2019/20, especially with regards to the localisation (75%) retention of business rates remains a significant area of concern. This will be reviewed as information and guidance on how the scheme will work is released. The February 2018 MTFS forecasts deficits in the region of £1.6m in 2020/21 and £2.3m in 2021/22.</p> <p>An updated MTFS will be brought back to Members as soon as more is known.</p> |
| <p>CRR01c Financial Cause: The Council is reliant on Central Controlled Government funding (e.g. Business Rates). Risk: (iii) Decrease in Rateable Value due to several large buildings being redeveloped and coming off the RV list, including Piries Place, Park North and North Point. This causes the Council to fall below the business rates baseline, resulting in loss of funding.</p> | <p>Reductions in funding Financial</p> | |  | CRR.01c.1 Continue to keep a watching brief | Dominic Bradley | ▶ |  | <p>New risk:</p> <p>June 2018 Update:</p> <p>There was a £1.16m reduction in Rateable Value on the 2017 list and £2.07m reduction against the 2010 list in 2017/18.</p> <p>On the 2010 list specifically, the resolution of appeals over the GP surgeries has been settled and the removal of the former Novartis site from the 2010 ratings also lost a further significant RV.</p> <p>This trend is a significant concern and risk to the Council's funding position should it continue.</p> |

| Risk Code & Description | Effect | Risk Owner | Current Risk Matrix | Control Action | Control Action Owner | Status | Target Risk Matrix | Quarterly Update |
|--|--|------------|---------------------|--|----------------------|--------|--------------------|---|
| <p>CRR19 Cause: Uncertainty in the UK and World economy. The Government has spoken about an additional 5% reduction in local government funding, and further cuts in years to come.</p> <p>Risk: The impact on the financial markets and the pound could bring forward the next recession and cause a slowdown in the housing market. This may result in a reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims.</p> | Financial Service Delivery Compliance with Regulations | Jane Eaton | | CRR19.2 Monitor the external environment | Dominic Bradley | ▶ | | <p>June 2018 update:</p> <p>The uncertain economic environment is being continually monitored and changes will be reported in any MTFS update and regular quarterly budget and performance monitoring to Overview and Scrutiny Committee.</p> |
| | | | | CRR19.3 Monitor internal indicators, particularly income generation | Dominic Bradley | ▶ | | |
| | | | | CRR19.4 Productivity and commercialisation reviews will provide recommendations going forward. (Programme of reviews to be completed by 30.09.2018) | Adam Chalmers | ▶ | | |
| <p>CRR25 Cause: The transition from Mid Sussex DC (who currently host the service for HDC residents) to the new provider (LGSS) is complex, with many inter-related dependencies including HR matters and potential data / and technology issues.</p> <p>Risk: That transfer of Revenues and Benefits service cannot be completed and / or does not go smoothly by 1 April 2018.</p> | Service Delivery Reputation | Jane Eaton | | CRR.25.1 Effective project delivery teams at HDC and LGSS | Jane Eaton | ▶ | | <p>June 2018 Update:</p> <p>The sharing of staff resource between Mid Sussex and LGSS comes to an end at the end of June and Horsham's business will be solely staffed by LGSS employees. Difficulties with 3rd party technology suppliers making support available to move our systems to LGSS have continued and Horsham and Mid Sussex may still need to continue to support each other's technology through the residual elements of the CenSus technology partnership beyond June.</p> |
| | | | | CRR.25.2 Continue to work collaboratively with MSDC to ensure each council has effective teams in place for the future delivery of their service | Jane Eaton | ▶ | | |
| | | | | CRR.25.3 Ensure successful transfer of customer data - HDC has good in-house skills and will benefit from LGSS's experience transferring other LA's data | Jane Eaton | ▶ | | |
| <p>CRR26 Cause: The combination of the original partnership agreement, the full integration of staff within CenSus Revenues and Benefits and MSDC's approach to disaggregation.</p> <p>Risk: That the cost of exiting the existing Revenues and Benefits agreement with MSDC may be high.</p> | Financial Reputation | Jane Eaton | | CRR.26.1 Continue to work with MSDC to reduce costs | Jane Eaton | ▶ | | <p>June 2018 Update:</p> <p>No change to risk. The outcome of Mid Sussex's redeployment of staff remains unknown at present.</p> |
| | | | | CRR.26.2 LGSS are prepared to speak with any current staff who want to work for them | Jane Eaton | ▶ | | |

| Risk Code & Description | Effect | Risk Owner | Current Risk Matrix | Control Action | Control Action Owner | Status | Target Risk Matrix | Quarterly Update |
|--|--|------------|---------------------|--|----------------------|--------|--------------------|---|
| CRR01a Financial Cause: The Council is reliant on Central Controlled Government funding (e.g. Business Rates). Risk: (i) Failure to achieve the required level of savings and income in the MTFS to 2019/20 | Reductions in funding Adverse effect on morale Financial Failure to achieve agreed objectives | Jane Eaton | | CRR.01.1 Review current budgets in preparation for the 2019/20 budget (October Annually) | Dominic Bradley | | | <u>June 2018 update:</u> A balanced budget with a £0.5m surplus for 2018/19 was approved by Council on 21 February 2018. This incorporated many of the efficiency and additional income plans worked on during the year. The MTFS was also updated which forecasts a small surplus in 2019/20 on the expectation that central funding from the government's four year settlement is delivered and that the proposed plans to deliver further efficiencies and income are implemented. Ideas are being worked through to identify areas where further income and efficiencies can be generated. This is being done across a number of work streams. |
| | | | | CRR.01.2 Develop options to deal with pressure for consideration by Members | Dominic Bradley | | | |
| | | | | CRR.01.3 Implement the Medium Term Plan | Dominic Bradley | | | |
| | | | | CRR.01.4 Ongoing monitoring under the Service Efficiency Board | Dominic Bradley | | | |
| | | | | CRR.01.5 Productivity & commercialisation projects reviews being undertaken, each of which will provide recommendations (programme of reviews to be completed by 30/09/18) | Adam Chalmers | | | |
| CRR02 Managerial / Professional Cause: The Council has a legal obligation to protect personal data. The Information Commissioners powers are much more far reaching when they change in May 2018. Risk 1: Major data breach or leak of sensitive information to a third party. Risk 2: Risk of significant ICO fine for non-compliance with new General Data Protection Regulations (GDPR). | People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims Financial losses Fines from regulators Adverse publicity Reputation damage | Jane Eaton | | CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy | Andrea Curson | | | <u>June 2018 Update:</u> CRR.02.1 This work is ongoing. CRR02.2 The Council's implementation of GDPR was complete at 25 May and is now embedded in general operating. CRR02.3 GDPR on line training rolled out to all staff in February and briefing for Councillors arranged for March. CRR02.4 PSN submission completed for 2018/2019. Waiting on validation checks. |
| | | | | CRR.02.2 Develop Strategy for implementation of General Data Protection Regulations (GDPR) (to follow) | Jane Eaton | | | |
| | | | | CRR.02.3 Provide a programme of Induction and at least annual training on Information Security to all staff. | Robert Laban | | | |
| | | | | CRR.02.4 Annual PSN Accreditation | Andrea Curson | | | |
| | | | | CRR.02.5 Representatives from each department meeting every other month to maintain compliance, updates and training | | | | |

| Risk Code & Description | Effect | Risk Owner | Current Risk Matrix | Control Action | Control Action Owner | Status | Target Risk Matrix | Quarterly Update |
|--|---|---------------|---------------------|--|--|--------|--------------------|--|
| <p>CRR03 Legal Cause: The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses.</p> <p>Risk: The Council is found to have failed to fulfil its obligations under the Act in the event of a civil contingency.</p> | <p>People and businesses come to harm and suffer loss that might not otherwise have occurred</p> <p>Complaints / claims / litigation</p> <p>Resources consumed in defending claims</p> <p>Financial losses</p> <p>Censure by regulators</p> <p>Reputation damaged</p> | Trevor Beadle | | CRR.03.1 Update corporate business continuity plan and regular review. | Trevor Beadle | | | <p>June 2018 Update:</p> <p>CRR.03.1 – Full review currently taking place in line with the new IT DR plan.</p> <p>CRR.03.2 – All departmental managers to be contacted in September to update as audit will take place in October/November 2018 as per annual programme.</p> <p>CRR.03.4 – Awaiting confirmation from SLT to place order for backup generator.</p> <p>CRR.03.5 – Bitesize programmes are ongoing.</p> <p>CRR.03.6 – Changes have been accounted for and will be included in future plan reviews.</p> |
| | | | | CRR.03.2 Update departmental business continuity plans and regular review. | Trevor Beadle | | | |
| | | | | CRR.03.4 Build IT disaster recovery procedure into new Hop Oast development (warm site). Further plan revision will be made to reflect changes. | Trevor Beadle | | | |
| | | | | CRR.03.5 Bitesize workshops in 2017 and 2018 to address new procedures and processes and all SLT and heads of service will be invited to attend. | Trevor Beadle | | | |
| | | | | CRR.03.6 Pickup Emergency Planning changes due to changes to Heads of Service (e.g. Mark Pritchard, Paul Cummins leaving) | Trevor Beadle | | | |
| | | | | | | | | |
| <p>CRR06 Physical Cause: The Council is responsible for the health & safety of its clients, staff and other stakeholders, owns and maintains significant assets, and also has responsibility for H&S in some partner organisations where it does not have operational control.</p> <p>Risk: A health & safety failure occurs.</p> | <p>People come to harm</p> <p>Complaints/claims/ litigation</p> <p>Financial losses</p> <p>Censure by audit / inspection</p> <p>Reputation damage</p> <p>Adverse effect on morale</p> <p>Stress and absenteeism</p> | Jane Eaton | | CRR.06.2 Develop and implement a corporate inspection strategy (By 30/06/16). | Robert Laban / Health & Safety Officer | | | <p>June 2018 Update:</p> <p>CRR.06.2: Corporate H&S Adviser continues to inspect HDC premises. A self-inspections approach is being developed throughout 2018/19.</p> <p>CRR.06.3 - H&S responsibilities are set out in the Corporate H&S Policy and H&S subject policies. Directorate H&S Working Groups are responsible for implementing these policies. Team self-audits to commence from 2018/19.</p> <p>H&S Training matrix has been published as part of the corporate competencies framework.</p> <p>E-learning courses for H&S key</p> |
| | | | | CRR.06.3 Clarity of responsibilities and implementation of a training programme | Robert Laban | | | |
| | | | | CRR.06.4 Implement a central repository for risk assessments | Robert Laban / Health & Safety Officer | | | |
| | | | | | | | | |

| Risk Code & Description | Effect | Risk Owner | Current Risk Matrix | Control Action | Control Action Owner | Status | Target Risk Matrix | Quarterly Update |
|---|--|------------|---------------------|---|------------------------------|--------|--------------------|---|
| | | | | | | | | <p>topics are accessible via Horsham LAB.</p> <p>CRR.06.4: The introduction of a central repository for risk assessments remains deferred until the roll-out of Office 365 is completed or Technology One can be configured in this respect - this is not likely before Dec 2018.</p> |
| <p>CRR 18 Technological Cause: Council services are increasingly reliant on IT systems at a time when there are greater opportunities for malicious attackers to exploit security weaknesses.</p> <p>Risk 1: A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.</p> <p>Risk 2: IT not working due to environmental problems: fire, flood, power cut</p> | <p>Loss of key systems resulting in disruption to Council services. Cost of investigation and recovery of systems. Fraud/theft. Loss of the integrity of Council Records. Exposure of sensitive/personal data resulting in penalties from the ICO. Reputational or political damage from adverse media coverage.</p> | Jane Eaton | | CRR.18.1 Staff Training | Claire Oliver / Robert Laban | | | <p>June 2018 Update:</p> <p>Remediation ongoing.</p> <p>Patching of devices ongoing.</p> <p>All work is ongoing.</p> <p>CRR.18.5 - PSN submission completed in May 2018 we are working on remedial items and waiting on PSN validation checks.</p> <p>All work is ongoing.</p> |
| | | | | CRR.18.2 Awareness of current threats | Andrea Curson | | | |
| | | | | CRR.18.3 An effective ICT Service delivery team | Andrea Curson | | | |
| | | | | CRR.18.4 Effective patching and updates to mitigate known vulnerabilities | Andrea Curson | | | |
| | | | | CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS) | Andrea Curson | | | |
| | | | | CRR.18.6 Effective policies in place which outline security requirements for users of ICT | Andrea Curson | | | |
| | | | | CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems. | Andrea Curson | | | |
| | | | | CRR.18.8 The CenSus Cloud will transfer the risks to the cloud provider | Andrea Curson | | | |

| Risk Code & Description | Effect | Risk Owner | Current Risk Matrix | Control Action | Control Action Owner | Status | Target Risk Matrix | Quarterly Update |
|---|---|------------|---------------------|---|----------------------|--------|--------------------|--|
| CRR17 Cause: The External Auditors audit the HDC Benefits Grant Subsidy return to the Department for Work and Pensions (DWP) on an annual basis to identify errors. Risk: The Benefit Subsidy claim may be qualified and/or financial losses. HDC has a case load with a particularly high number of working people with many changes of circumstances. Refer to new risk CRR25 | Financial Service Delivery Compliance with regulations Reputation | Jane Eaton | | CRR.17.1 Continuously monitor the level of quality control checking. | Peter Stuart | | | <u>June 2018 Update:</u> This is an ongoing risk. The risk remains until Universal Credit comes in for all working age cases. Risk actions complete, retained on register to keep in view. |
| | | | | CRR.17.6 Complete successful transfer to new provider | Jane Eaton | | | |
| CRR20 Technological Cause: There is an inherent risk when significant financial systems change. New Financial Management System (FMS) went live in September 2017 Risk: FMS system runs without the right level of functionality in all areas. Lack of integration with other systems that requires significant systems re-processing. Some functions are not used. | Incorrect data migration Data inaccuracies Inaccurate reporting and decision-making Failure to achieve agree objectives and deliver statutory services • Poor VfM | Jane Eaton | | CRR.20.3 Training and implementation for all Council users to enable access and self-service usage of new system. | Dominic Bradley | | | <u>June 2018 update:</u> Suggest removed from Corporate Risk register now implementation project completed and will remain on the department risk register though until all functionality in place. |
| | | | | CRR.20.4 Sufficient time and testing incorporated into plans to constantly develop usage of the new FMS. | Dominic Bradley | | | |
| | | | | CRR.20.5 Ensure procedure notes for new system and skills are maintained. | Dominic Bradley | | | |
| CRR05 Governance Cause: Managers are responsible for ensuring that controls to mitigate risks are consistently applied. Risk: Officers are either unaware of expected controls or do not comply with control procedures. | Failure of business objectives Health & Safety Financial Service Delivery Compliance with Regulations Personal | Jane Eaton | | CRR.05.1 Officer training | Jane Eaton | | | <u>June 2018 Update:</u> Risk actions complete, retained on register to keep in view |
| | | | | CRR.05.2 Raise the profile of risk and control by incorporating them into the performance management framework (e.g. integrate into appraisal process). | Jane Eaton | | | |
| | | | | CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical) | Jane Eaton | | | |

| Risk Code & Description | Effect | Risk Owner | Current Risk Matrix | Control Action | Control Action Owner | Status | Target Risk Matrix | Quarterly Update |
|---|--|---------------|---------------------|---|----------------------|--------|--------------------|---|
| | Privacy Infringement Reputation damage | | | | | | | |
| CRR24 Cause: The implementation of the new bin collection service is a major change of service delivery with a high level of complexity that affects all residents Risk: Failure to successfully roll out the new bin collection service. There are multiple risks around late delivery; cost impact and reputation | Failure of business objectives Financial Service Delivery Reputation Environmental | Adam Chalmers | | CRR.24.1 Control actions identified in project risk register | Adam Chalmers | ✓ | | <u>June 2018 Update:</u> Roll out of new bin collection service is complete. The project was delivered to timetable and to budget. The service is now concentrating on making the service more efficient. Recommended that the risk be removed from the register. |
| CRR27 Cause: Current Chief Executive leaving, new Chief Executive appointed Risk: Transition from current to new Chief Executive takes longer than expected; changes in corporate strategy. | Reputation | | | CRR.27.1 Support from current CE in period up to start date | Jane Eaton | ✓ | | <u>June 2018 Update:</u> Recommended that the risk be removed. |
| | | | | CRR.27.2 Support from SLT and other senior officers to provide context, priorities etc. | Jane Eaton | ✓ | | |

SLT: New Director post to be added to risks?

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Report to Audit Committee

12th July 2018

By the Chief Internal Auditor



**Horsham
District
Council**

INFORMATION REPORT

Not Exempt

Internal Audit – Annual Report and Opinion 2017/18

Executive Summary

This report has been compiled to:

- Provide a statement on conformance with the Public Sector Internal Audit Standards.
- Summarise the effectiveness of internal audit work.
- Summarise the work undertaken by Internal Audit during 2017/18 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.

Recommendations

- To note the summary of audit and project work undertaken since March 2018.
- To note the statement of compliance with the Public Sector Internal Audit Standards.
- To note the performance of internal audit against performance targets.
- To note 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.

Reasons for Recommendations

- To comply with the requirements set out in the Public Sector Internal Auditing Standards 2013 (amended 01/04/17).
- The Audit Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

Background Papers: (i) Internal Audit Reports (ii) Orbis Quality Assurance Improvement Programme - External Validation

Consultation: N/A

Wards affected: All

Contact: Paul Miller, Chief Internal Auditor, Ext 5319

Background Information

1. Introduction and Background

1.1 Purpose of Report

The main purposes of the report are to:

- Provide a statement on conformance with the Public Sector Internal Audit Standards, and the results of the Orbis Self-Assessment with external independent validation.
- Provide feedback on the performance of the Internal Audit Section during the year.
- Summarise the work undertaken by the Council's Internal Audit Section and provide management and Members with an overall opinion on the adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

Internal audit work can provide 'reasonable', not 'absolute', assurance and it cannot guarantee that any system reviewed is free from material weakness. The opinion given on the overall system of internal control is based primarily on the audit work undertaken.

1.2 Quarterly Reports

The Audit Committee receives periodic reports on the work carried out by Internal Audit as part of the Council's governance arrangements. Please see Appendix 3 for the summary of work undertaken by Internal Audit since March 2018.

1.3 Strategic Audit Plan

The Internal Audit plan is a risk-based plan prepared by the Chief Internal Auditor in consultation with senior managers. Systems which are considered to be fundamental to the Council's operations, or that are considered to be high risk, are normally reviewed on an annual basis.

1.4 Staffing

During 2017/18, the audit team operated with 2.6 members of staff (two full time employees and one part-time employee). All auditors have the requisite experience to effectively fulfil their responsibilities, and all members of the team are professionally qualified.

2. Relevant Policy / Professional Standards

2.1 Statutory Background

The Accounts and Audit (England) Regulations 2015 state that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.” This responsibility is discharged through the Council’s Internal Audit Section.

2.2 Relevant Professional Standards

Internal Audit follows the standards set out in the Public Sector Internal Audit Standards 2013.

The Chief Internal Auditor is required to report 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.

2.3 Relevant Council Policy

The Council’s Constitution supports the statutory requirements outlined above. Financial Procedure Rule 4e 32 states that: “the Chief Finance Officer, as determined by the Council, will ensure that the Council has appropriate arrangements in place to maintain an adequate and effective internal audit”. The terms of reference for Internal Audit are detailed in the Council’s Internal Audit Charter which is approved and reviewed by the Audit Committee.

3. Compliance with the Public Sector Internal Audit Standards

3.1 The Council's Internal Audit Service is operated in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1st April 2013. The standards require that an external quality assessment is undertaken every five years by a qualified, independent assessor or assessment team from outside the organisation. The internal audit service at Horsham is now provided by the Orbis Partnership which has recently been externally reviewed by SWAP (the South West Audit Partnership).

3.2 The internal audit team joined the Orbis Partnership on 1st April 2018. The decision to join the Partnership was made in the previous financial year, and the last financial year 2017/18 has allowed a period of transition during which Orbis processes and ways of working have been adopted. It follows, therefore, that Horsham D.C is able to place reliance on the SWAP external assessment.

- 3.3 The results of the external review are the subject of a separate report. However, in summary, the independent external assessor’s overall conclusion is that the service has achieved the highest level of conformance.
- 3.4 The Internal Audit Team has maintained its independence throughout 2017/18 in accordance with the Audit Charter.

4. Effectiveness of Internal Audit

4.1 Performance against the Annual Internal Audit Plan

The Internal Audit team uses a risk based approach when determining the annual audit plan and undertaking audit assignments. In order to respond to new risk areas identified during the year, the audit plan was sufficiently flexible to allow for additional audits to be undertaken.

During the year, 88% of audits on the 2017/18 audit plan were completed. Please see table below:

| Performance | 2017/18 |
|----------------------------|---------|
| Number of Audits Planned | 24 |
| Number of Audits Completed | 21 |
| Percentage Target | 85% |
| Percentage Achieved | 88% |

Planned reviews not undertaken during 2017/18:

- Contract Management (included in the audit plan for 2018/19)
- Rural Car Parks (as reported to the Audit Committee in December 2017)
- Cloud Computing (as reported to the Audit Committee in December 2017)

Other amendments to the Audit Plan during 2017/18:

- As reported to the June 2017 Audit Committee meeting, Parking Enforcement was replaced by a review of the ANPR system. Parking Enforcement has been included in the audit plan for 2018/19.
- As reported to the June 2017 Audit Committee meeting, Mobile Devices was replaced by an initial review of cyber controls. Further audit work on cyber controls has been included in the audit plan for 2018/19.
- As reported to the December 2017 Audit Committee meeting, the audit follow up of building security was replaced by an audit follow up of bulky waste.

The following work was also undertaken:

- Special Investigation which led to the resignation of a member of staff.
- Orbis Integration – Project plan developed and implemented.
- Development of a Corporate Document Retention Policy.
- Training and support provided to senior officers and Members on the workings of the Housing Benefit Subsidy Grant.
- Audit of the Private Sector Housing Assistance Grant claim.
- Membership of the Corporate Governance Group.
- Membership of the Project Review Group.
- Membership of the GDPR Board.
- Anti-Fraud & Corruption Policy reviewed and updated.
- Support provided for risk management (including training to senior officers).
- Development of a risk management toolkit for projects.
- NFI (National Fraud Initiative) work.
- Input into the Annual Governance Statement.

4.2 Implementation of agreed actions within the agreed timescale

The percentage of agreed action items implemented is one of the measures used to demonstrate the effectiveness of the audit team, although the actual implementation of agreed actions is a management responsibility.

From a review of 144 agreed actions for the previous financial year (2016/17), 139 have been implemented (97%) which is an improvement on the previous year.

| Performance | 2015/16 | 2016/17 |
|--|---------|---------|
| No. of agreed actions for the year | 135 | 144 |
| No. of agreed actions implemented as at 31 st March | 128 | 139 |
| Percentage of Agreed Actions Implemented | 95% | 97% |

Details continue to be reported to the Audit Committee which monitors progress on a quarterly basis.

4.3 Reporting

“Draft” audit reports and working papers are subject to a quality review undertaken by the Chief Internal Auditor (CIA) before the final report is issued. There is a performance indicator which measures the percentage of audit reports issued within 15 days of the final audit meeting. The target for 2017/18 was set at 85%, and 92% has been achieved.

A target for issuing the “points arising” document within 15 days of receipt from the auditor was set, but due to a fundamental change in the process, this performance measure no longer applies.

4.4 Management Feedback

On completion of each audit assignment, the Chief Internal Auditor consults management formally to obtain their opinion on the approach and value of the audit work. The target for “very good”, “good” and “satisfactory” performance was set at 95%. 100% has been achieved.

5. Opinion on the Control Environment

5.1 This section of the report draws attention to any issues the Chief Internal Auditor considers are particularly relevant to the preparation of the Annual Governance Statement and includes an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment and discloses any qualifications to that opinion, together with the reasons for the qualification.

5.2 The overall opinion is that “**Satisfactory**” 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. The opinion is based upon audit work undertaken during the year. The number of outstanding agreed action items from audit follow ups has also been taken into account.

| Assurance Areas: | |
|-------------------------|--|
| Governance | <p>The Council is committed to the principles of good corporate governance, which are already demonstrated through many aspects of good practice.</p> <p>A number of improvements have been made in respect of the Council’s Governance Framework during 2017/18. In particular, a programme of regular governance training has been developed (e.g. health & safety, anti-fraud, information and data security). This has been incorporated into the Council’s online appraisal system.</p> |
| Risk Management | <p>The Council’s risk management framework is now embedded into the culture of the authority. The Corporate Risk Register is formally reviewed quarterly by the Senior Leadership Team and Members of the Audit Committee. Every department maintains its own departmental risk register (including outsourced</p> |

| | |
|------------------|--|
| | functions), and an escalation process is in place. Project risks are considered, and a proportionate approach is taken depending upon the size and importance of the project. |
| Internal Control | The table of internal audit assurance opinions, in Appendix 1, shows the individual audit opinions from the audit assignments undertaken during 2017/18. Where significant control weaknesses have been identified, remedial action has either been implemented or is programmed to be implemented within three months in accordance with the Council's risk appetite. |

5.3 **Qualification to the Opinion**

The audit opinion is based upon, but not limited to, the work performed by internal audit during the year. The opinion does not imply that Internal Audit has reviewed all risks and controls relating to the Council, but is based upon the range of individual opinions arising from risk based audit assignments completed during 2017/18. Opinions for individual audits are detailed in Appendix 1 of this report, and definitions of the opinions can be found in Appendix 2.

6. **Next Steps**

Not applicable.

7. **Outcome of Consultations**

Not applicable.

8. **Other Courses of Action Considered but Rejected**

Not applicable.

9. **Resource Consequences**

There are no direct staffing consequences.

10. **Legal Consequences**

There are no financial consequences. Where compliance issues are identified during audit fieldwork, the Head of Legal & Democratic Services (or relevant legal specialist) will be consulted.

11. Risk Assessment

The Internal Audit function contributes to the effectiveness of the Council's risk management arrangements.

All Internal Audit work is undertaken using a risk based approach.

12. Other Considerations

Internal Audit is a reporting function and there are no consequences in respect of Crime & Disorder; Human Rights; Equality & Diversity; or Sustainability. However these areas are considered where appropriate during audit fieldwork.

Appendix 1

| AUDITS | INTERNAL AUDIT ASSURANCE OPINIONS | | | |
|---------------------------------|-----------------------------------|------------|---------|---------|
| | SUBSTANTIAL | REASONABLE | PARTIAL | MINIMAL |
| HACKNEY & PRIVATE HIRE LICENCES | | ✓ | | |
| COMMERCIAL RENTS | | ✓ | | |
| USE OF CONSULTANTS | | ✓ | | |
| FORWARD PLAN | | ✓ | | |
| NEW FMS – DATA MIGRATION | | ✓ | | |
| COMMUNITY LINK ALARMS | | ✓ | | |
| CASUAL WORKERS | | ✓ | | |
| COUNCIL TAX | ✓ | | | |
| NNDR | | ✓ | | |
| BULKY WASTE (FOLLOW UP) | | ✓ | | |
| PAYROLL | | | ✓ | |
| CASH & BANK | | ✓ | | |
| ACCOUNTS PAYABLE | | ✓ | | |
| ACCOUNTS RECEIVABLE | | ✓ | | |
| TREASURY MANAGEMENT | ✓ | | | |
| HOUSING BENEFITS | | ✓ | | |

Note: The Horsham Internal Audit Team audited the Council Tax and NNDR systems on behalf of Horsham and Mid Sussex District Councils. The audit of Housing Benefits was undertaken by the Crawley Internal Audit team, and reliance has been placed on this work.

Appendix 2

SUMMARY OF INTERNAL AUDIT ASSURANCE OPINIONS

| Opinion | Definition |
|------------------------------|---|
| Substantial Assurance | Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| Reasonable Assurance | Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| Partial Assurance | There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk. |
| Minimal Assurance | Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives. |

Appendix 3

Summary of audit work completed during Quarter 4

1. Summary of Audit Findings

1.1 Treasury Management

OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE** (↑)¹

There is a sound system of control in place for Treasury Management and audit testing identified that expected controls are being consistently applied.

1.2 Cash and Bank

OVERALL AUDIT OPINION: **REASONABLE ASSURANCE** (↑)

There is good separation of duties, and the Council maintains a daily cash flow forecast that ensures that bank account balances are monitored on a daily basis which ensures funds are deployed as efficiently as possible. A new and improved bank reconciliation process has been developed following the migration of the FMS to Technology 1 (T1), and this has facilitated more timely completion of the month end reconciliations. All timing differences and other outstanding items are reported and there are no unidentified differences on the reconciliations.

Some weaknesses in control have been identified, but none of these are considered to be high risk items. Actions have been agreed to:

- Improve the transparency of outstanding items when reconciling the income suspense account, and
- Ensure that '*number combinations*' that provide access to the Finance safe are changed when a member of staff (who knows the combination number) leaves the organisation.

¹ The symbols in brackets indicate the movement in the level of assurance when the area was last audited.

(↑) = Improved.

(↔) = No change.

(↓) = Reduced.

If blank ~ No previous opinion

1.3 Housing Benefits

OVERALL AUDIT OPINION: **REASONABLE ASSURANCE** (↑)

The Horsham D.C subsidy grant was qualified by Ernst and Young (External Audit) during 2014/15 and 2015/16 which had resulted in significant financial clawbacks. This was largely due to data input errors spanning a number of years. A data cleansing exercise was commissioned at the beginning of 2017 which has improved the quality of data, and this improvement is reflected in the results of the subsidy grant audit for 2016/17.

The Housing Benefits internal audit for 2017/18 was undertaken by the Crawley Internal Audit team, and they concluded that there were no *new* significant weaknesses in control. The audit of the Housing Benefits system included a follow up of agreed actions from the previous audit, and most of these had been implemented. However, it was identified that one high priority item had not been implemented:

“Quality Assurance information will be used to develop the annual training programme for individuals and general team needs”.

This action has now been reassigned, and is scheduled to be completed by the end of June 2018.

1.4 Accounts Payable and Receivable

OVERALL AUDIT OPINION: **REASONABLE ASSURANCE** (↔)

The Council introduced the new ‘Technology One’ financial information system in September 2017. Because of the significant impact on the Finance Team, and in particular, the loss of their experienced Systems Accountant shortly after implementation, Internal Audit restricted its review of the accounts payable and accounts receivable systems to the identification and testing of ‘key system’ controls.

From the limited focus of this review, we did not identify any control weaknesses that could place system objectives at risk. It was noted, however, that no debts had been written off during 2017/18. It was agreed that these would be written off within the 2018/19 financial year once the recently appointed Systems Accountant has had an opportunity to understand the Technology One system.

1.5 Payroll

OVERALL AUDIT OPINION: **PARTIAL ASSURANCE** (↓)

Starter and leaver instructions have been correctly authorised by officers within the HR & OD Department, and there continues to be good separation of duties between the authorisation and processing of payroll amendments. There is an effective process in place to review and correct data input errors made by Capita². Whilst control weaknesses have been identified exposing the Council to risk in some areas (see below), the auditor did not identify evidence of any incorrect payments from the sample testing undertaken.

The auditor identified that some of the monthly reconciliations between the General Ledger and SAP Systems had not been completed. Whilst the gross reconciliations were being undertaken and signed off by a senior officer, the net reconciliations were not being completed. Furthermore, some of the control accounts had not been reconciled since the beginning of 2017. The Payroll & Benefits Controller carried out the net reconciliation at the end of the financial year and 18 corrective journals were processed. Further corrective journals have also been processed for some of the control accounts. The corrective journals related to coding errors rather than payment errors (i.e. affecting the management accounts). One of the control account reconciliations revealed that an employee, who had left the Council's employment in the summer of 2017, had not fully repaid a staff loan due to a miscalculation. An invoice has now been raised for £54 to recover the outstanding amount.

The list of departmental authorised signatories for overtime and casual worker instructions is incomplete. Of particular concern is that instructions to make overtime payments to operatives at Hop Oast Depot have not been received from an authorised signatory. Appropriate remedial action has been agreed.

The annual reconciliation between the Staff Establishment and SAP System was not undertaken during 2017/18 to identify discrepancies between the two systems. This will be undertaken shortly, and will be repeated immediately prior to the implementation of the proposed new HR system next year.

2. Other Audit Work

2.1 Internal Audit has been involved in a number of activities since the last report to the Committee:

- Orbis Integration – final implementation of project plan.
- Further development of a retention schedule for the Council (in consultation with managers) in preparation for GDPR (General Data Protection Regulations).

² Capita administers Payroll on behalf of West Sussex County Council (Horsham's service provider).

- Active involvement in the following groups:
 - Broadbridge Health Leisure Centre Project Board.
 - GDPR Board.
 - Corporate Governance Group.
 - Project Review Group.

Report to: **Audit Committee**

Date: **12 July 2018**

By: **Horsham Chief Internal Auditor**

Title of report: **Independent External Assessment of Internal Audit**

Purpose of report: **To present the report detailing the findings from the recent independent external assessment of Orbis Internal Audit.**

RECOMMENDATIONS

Members are recommended to:

- Note the report and in particular the external assessor's conclusion that Orbis Internal Audit has achieved the highest level of conformance with relevant professional standards.**
-

1. Background

1.1 One of the key responsibilities of an audit committee is to monitor the performance of the organisation's internal audit service and satisfy itself as to the quality of audit services it receives. This assurance is obtained via a number of means, including regular update reports on internal audit activity, use of key performance indicators and regular assessments against relevant professional standards.

1.2 For internal audit in local government, these standards are set out within Public Sector Internal Audit Standards (PSIAS), based on the Institute of Internal Auditor's International Professional Practices Framework. There are two main requirements for assessing compliance with the PSIAS; an annual self-assessment and also a five-yearly external assessment to be conducted by a qualified, independent assessor or assessment team, from outside the organisation.

1.3 During the latter part of 2017/18, South West Audit Partnership (SWAP) were commissioned to undertake this independent assessment of Orbis Internal Audit, covering the services delivered to each of the partner organisations (East Sussex County Council, Surrey County Council and Brighton & Hove City Council). This commission was agreed by each of the three audit committees and was the first such assessment of the shared internal audit service since the three separate teams had begun working together under single leadership.

1.4 The assessment itself was conducted during the final quarter of 2017/18 and involved a detailed examination and validation of Orbis' own self-assessment against the Standards along with interviews with a range of key stakeholders from across all three partner organisations.

2. Supporting Information

2.1 The full external assessment report from SWAP is attached as appendix A and confirms that Orbis Internal Audit has achieved the highest of three available levels of conformance, 'Generally Conforms', 'Partially Conforms' or 'Does Not Conform'. This is an especially pleasing outcome given the relatively early stage in which the three teams have been working together and the full integration of the new shared service not being complete at the time of the review.

2.2 Horsham District Council is referred to on page 3 of the report as follows:

"In addition to providing the Internal Audit Service for ORBIS the team have recently engaged with Horsham District Council to provide their internal audit service. This is in addition to existing external customers including Elmbridge District Council, South Downs National Park Authority and East Sussex Fire Authority".

SELF-ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION

ORBIS INTERNAL AUDIT SERVICES



FEBRUARY 2018

**COMPLETED BY:
SWAP INTERNAL AUDIT SERVICES**



Independent Validation by SWAP Internal Audit Services

Report on Self-Assessment of the ORBIS Internal Audit Service

8th February 2018

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EXECUTIVE SUMMARY

The *Public Sector Internal Auditing Standard (PSIAS)* and the *International Standards for the Professional Practice of Internal Auditing* requires that an external quality assessment (QA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the QA process. The QA can be accomplished through a full external assessment or a self-assessment with independent validation.

The Chief Internal Auditor (CIA) discussed the form and frequency of the QA, as well as the independence and qualifications of the external assessor or assessment team from outside the organisation, including any potential conflicts of interest with their partner Audit Committees (boards); in this case and with reference to the Standards, the Audit Committee is the board and is referred to as such throughout this report. Upon consultation and agreement by the boards, the ORBIS Internal Audit Service conducted a self-assessment of its internal audit activity and selected SWAP Internal Audit Services (SWAP) as the qualified, independent external assessor or assessment team to conduct a validation of the self-assessment of ORBIS Internal Audit.

The internal audit team is currently made up of c.30 employees not including the CIA but including a specialist investigations team, based at three locations, Lewes, Brighton and Kingston-upon-Thames. There is a good mix of qualified staff led by a sovereign lead at each location, reporting to the CIA. In addition to providing the Internal Audit Service for ORBIS the team have recently engaged with Horsham District Council to provide their internal audit service. This is in addition to existing external customers including Elmbridge District Council, South Downs National Park Authority and East Sussex Fire Authority.

The CIA reports functionally to the ORBIS Director of Finance and is a member of the Orbis Finance Senior Leadership Team. The CIA is highly respected amongst the majority of senior officers and Members interviewed at the three locations. It should be noted however that at one Council, Brighton and Hove, some of the senior officers and Members interviewed were less familiar with the CIA. This is hardly surprising and in no way reflects negatively on the CIA given the developing nature of the ORBIS internal audit partnership. It should be noted that each of the individual teams, and in particular each sovereign lead, are highly respected and valued.



Opinion as to Conformance with the *Standards* and the Code of Ethics

It is our overall opinion that internal audit generally conforms with the *Standards* and the Code of Ethics. A detailed list of conformance with individual *Standards* and the Code of Ethics is shown in appendix A.

The Institute of Internal Auditors (IIA) suggests a scale of three rankings when opining on the internal audit activity, “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.”

- “Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics.
- “Partially Conforms” means that deficiencies in practice are noted that are judged to deviate from the *Standards* and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- “Does Not Conform” means that deficiencies in practice are judged to deviate from the *Standards* and the Code of Ethics, and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

The internal audit service was assessed against all 45 points outlined in appendix A and found to be in General Conformance with all but 3. For these 3 points the review team found the internal audit service was in Partial Conformance and none were significant enough to affect their overall opinion. Recommendations have been made in this report to address these areas for improvement.

A detailed description of conformance criteria can be found in appendix B.

Objectives, Scope, and Methodology

Objectives

- The principle objective of the QA was to assess internal audit's conformance with the *Standards* and the Code of Ethics.
- internal audit also evaluated its effectiveness in carrying out its mission (as set forth in the internal audit charter and expressed in the expectations of the ORBIS partner Councils' management); identified successful internal audit practices demonstrated by internal audit; and identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and the value to their stakeholders.
- SWAP Internal Audit Services validated the results of internal audit's self-assessment. The main focus was to validate the conclusion of internal audit related to conformance with the *Standards* and the Code of Ethics. They also reviewed internal audit observations related to successful internal audit practices and opportunities for continuous improvement. They offered additional observations as they deemed appropriate.

Scope

- The scope of the QA included internal audit, as set forth in the internal audit charter and approved by the boards, which defines the purpose, authority, and responsibility of internal audit.
- The QA was concluded during January 2018 and provides senior management and the boards with information about internal audit as of that date.
- The *Standards* and the Code of Ethics in place and effective as of 1st January 2017, were the basis for the QA.

Methodology

- Internal audit compiled and prepared information consistent with the methodology established in the *Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note*. This information included all supporting documentation; an evaluation summary, documenting all conclusions and observations; and the self-assessment by internal audit. Further evidence was provided to the external validation team as requested.
- Internal audit identified key stakeholders (internal audit staff, senior management and the boards, and the external auditors) and interviewed each individual identified. The results were tabulated by Gerry Cox, Chief Executive and Ian Baker, Director of Quality (the review team); individual responses remain confidential. Survey results were shared with internal audit during their self-assessment process.
- Prior to commencement of the on-site validation portion of the internal audit self-assessment, the review team discussed with internal audit preparation for the review, identified key stakeholders to be interviewed and other details relating to the review.
- To accomplish the objectives, the review team reviewed information prepared by internal audit and the conclusions reached in the QA assessment. The review team also conducted interviews with selected key stakeholders, including the audit committee chairmen, senior management of the three ORBIS Partner Councils, external auditors, the Chief Executive of South Downs National Park and internal audit management and staff; reviewed a sample of audit projects and associated working papers and reports; reviewed survey data received from ORBIS partner Council stakeholders and internal audit management and staff; and prepared diagnostic tools consistent with the methodology established for a QA in the *Quality Assessment Manual for the Internal Audit Activity*.
- The validators prepared an “Independent Validation Statement” to document conclusions related to the validation of internal audit’s self-assessment. This statement is included as appendix C to this report.

Summary of Observations

Evidence gathered indicates that the *Standards* are well understood, the Code of Ethics is being applied, and internal audit management is endeavouring to provide necessary support and implement appropriate practices. Consequently, our comments and recommendations are intended to build on this foundation.

Observations are divided into three categories:

- **Successful Internal Audit Practices** – Areas where internal audit is operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit activities. The identification of these areas is intended to provide internal audit stakeholders with a view on things internal audit is doing in a leading practice manner when compared to other internal audit activities.
- **Gaps to Conformance** – Areas identified where internal audit is operating in a manner that falls short of achieving one or more major objectives, and attains an opinion of “partially conforms” or “does not conform” with the *Standards* or the Code of Ethics. These items will include recommendations for actions needed to be “generally in conformance,” and will include an internal audit response and an action plan to address the gap.
- **Opportunities for Continuous Improvement** – Observations of opportunities to enhance the efficiency or effectiveness of internal audit’s infrastructure of processes. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the *Standards* or Code of Ethics. They may also be operational ideas based on the experiences obtained while working with other internal audit activities. A management response and an action plan to address each opportunity noted are normally included.

DETAIL – SUCCESSFUL INTERNAL AUDIT PRACTICES

As mentioned above, the *Standards* are understood, and the Code of Ethics is being applied. The CIA and his team are well respected, and their opinion sought by senior management and the board. There were numerous examples of this offered during the course of our interviews and a specific example was the review of Internal Governance which helped to support a response to an Ofsted Report for the Council in question. There was strong support particularly for the CIA and a sense of trust placed in him and his team by both senior management and Members. Other positive observations include:

- The review team are of the opinion that the self-assessment has been carried out thoroughly and provided them with adequate evidence to support the conclusions.
- Interviews with key stakeholders confirm that the CIA and the IA team have a good reputation and organisational profile.
- The service receives a high level of satisfaction from individual audit review feedback forms.
- We asked the stakeholders interviewed to rate the internal audit service out of 10. Out of the 13 that offered an assessment, the service received an average score of 8.03 which indicates it is highly valued by its clients.
- The Statutory Officers Group, Statutory Responsibilities Network Group and the Officers Governance Board, all attended by the CIA or sovereign lead, provide excellent opportunity for internal audit to play an active role in the Councils' corporate governance.
- To inform future year planning the service benefits from a Mazaar's document looking at risks on the horizon and in addition they maintain a record of potential audit plan ideas for the year ahead.
- A number of stakeholders referred to the 'national' perspective that the CIA brings and referred to the 'Audit Together' Bulletin as an example of good practice and shared learning.

1. DETAIL – GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

We have assessed the ORBIS Internal Audit Service to be in General Conformance with the *Standards*. However, there are some areas where we believe that the service has some gaps in its conformance, none of which we would describe as significant. These are detailed as follows:

- 1.1 1110 – Organisational Independence** – The CIA reports to the ORBIS Director of Finance. The interpretation for this Standard states that *“Organisational independence is effectively achieved when the chief audit executive (CIA) reports functionally to the board.”* One of the examples of achieving this is given as *“Approving decisions regarding the appointment and removal of the chief audit executive (CIA).”*

The board in the case of local authorities normally refers to the Audit Committee. The practicalities of having an officer report to such a Committee would not be appropriate. However, the approved Audit Charter makes no reference to the appointment or removal of the CIA or who has authority to do so. Having the responsibility lie at an inappropriate level could potentially impact on the independent reporting of the CIA or at least on the perception of his independence by others.

In the case of ORBIS this is somewhat complicated by the fact that the CIA reports into three Committees. East Sussex have been very specific in the recruitment and dismissal of the CIA, ensuring that the Chairman is involved in the recruitment and would be informed of any proposal to dismiss the CIA.

Recruitment of the current CIA was covered in that the interviews were conducted by a panel of the three Audit Committee Chairmen and this could form the process of any future appointment. There seems no reason why the same panel should not be involved in any dismissal process. This could then form part of ORBIS Internal Audit Charter.



| | | | |
|--|--|--------------|-----------|
| 1.1a | Proposed Outcome: | | |
| We recommend that the Audit Charter is updated to make specific reference to who has the authority for approving decisions regarding the appointment and removal of the CIA and that this is set appropriately to provide assurance on the independence of the CIA, both real and perceived. Our suggestion would be the three ORBIS Partner Audit Committee Chairmen. | | | |
| Action Plan: | | | |
| Person Responsible: | Russell Banks | Target Date: | July 2018 |
| Management Response: | The CIA will undertake appropriate consultation across the three Orbis partner Councils with a view to updating all three Internal Audit Charters to include specific reference to the appointment and removal of the CIA. | | |

1.2 2040 – Policies and Procedures – This Standard requires that “The chief audit executive (CIA) must establish policies and procedures to guide the internal audit activity.” There is however, a caveat that such “policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.”

The ORBIS internal audit team is relatively large, working across a number of locations. It is therefore essential that guidance notes and templates are managed effectively and are easily accessible to all staff. Currently procedures are being developed for the ORBIS team. The team will also soon adopt MKi as their audit management tool. MKi, if structured correctly, will drive much of the audit process to an agreed methodology, ensuring consistency across the team. In addition, a central ‘Toolkit’ is being developed to assist and guide staff and this will be stored and managed through SharePoint. Although not fully conforming currently, this matter is already in hand and so no recommendation is made.

1.3 2050 - Coordination and Reliance – The Standard states that “The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.”

Some stakeholders were not able to confirm if there was duplication of effort across assurance providers (although they did not confirm there was). The CIA recognises the need to conduct an assurance mapping exercise and therefore again, no recommendation is made.

2. DETAIL – OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

In addition to the points raised above, the review team were mindful of any areas where there could be opportunity for the service to demonstrate continual improvement. A separate report has been prepared by SWAP aimed at raising such matters and assisting the ORBIS Internal Audit Team in its transition to a single functioning team.

2.1 Other Minor Observations – The following items, reported to the CIA verbally, were identified during the review and are very minor in nature:

- Whilst the Audit Charter is approved by each of the three partner Audit Committees, from our interviews with key stakeholders, there appeared to be a lack of awareness of the document. The CIA should consider raising such awareness.
- All staff are aware of each sovereign Council's Code of Conduct and are also required to sign up to the Professional Code of Ethics. Whilst it is clear this process has been rolled out, we were not able to evidence that all staff had signed and returned their individual declaration. These should be managed for distribution and return through SharePoint.
- Consideration should be given as to how the performance of the CIA will be managed. It would seem sensible to ensure there is a 360-degree feedback process involving all three partner Councils i.e. Audit Committee Chairmen, Chief Executives and other appropriate Senior Management.
- The Local Government Application Note (LGAN) asks *"Is the internal audit activity's plan of engagements based on a documented risk assessment?"* Having reviewed the content of the plans we were satisfied that they contained a well-balanced overview of the risks facing the organisation. There is scope to consider whether there is a need to audit some activities annually and instead focus this resource on new and emerging risks. However, the self-assessment identified that *'no formal scored risk assessment is however maintained'*. The CIA is introducing a standard approach to planning for the service and therefore no recommendation is offered.



APPENDIX A – EVALUATION SUMMARY

| | GC | PC | DNC |
|---------------------------|----|----|-----|
| Overall Evaluation | ✓ | | |

| Attribute Standards (1000 through 1300) | | GC | PC | DNC |
|--|--|----|----|-----|
| 1000 | Purpose, Authority, and Responsibility | | | |
| 1010 | Recognizing Mandatory Guidance in the Internal Audit Charter | ✓ | | |
| 1100 | Independence and Objectivity | ✓ | | |
| 1110 | Organisational Independence | | ✓ | |
| 1111 | Direct Interaction with the Board | ✓ | | |
| 1112 | Chief Audit Executive Roles Beyond Internal Auditing | ✓ | | |
| 1120 | Individual Objectivity | ✓ | | |
| 1130 | Impairment to Independence or Objectivity | ✓ | | |
| 1200 | Proficiency and Due Professional Care | | | |
| 1210 | Proficiency | ✓ | | |
| 1220 | Due Professional Care | ✓ | | |
| 1230 | Continuing Professional Development | ✓ | | |



| Attribute Standards (1000 through 1300) - <i>continued</i> | | GC | PC | DNC |
|--|---|-----|----|-----|
| 1300 | Quality Assurance and Improvement Program | | | |
| 1310 | Requirements of the Quality Assurance and Improvement Program | | ✓ | |
| 1311 | Internal Assessments | ✓ | | |
| 1312 | External Assessments | ✓ | | |
| 1320 | Reporting on the Quality Assurance and Improvement Program | ✓ | | |
| 1321 | Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ” | ✓ | | |
| 1322 | Disclosure of Non-conformance | N/A | | |

| Performance Standards (2000 through 2600) | | GC | PC | DNC |
|---|---|-----|----|-----|
| 2000 | Managing the Internal Audit Activity | | | |
| 2010 | Planning | ✓ | | |
| 2020 | Communication and Approval | ✓ | | |
| 2030 | Resource Management | ✓ | | |
| 2040 | Policies and Procedures | | ✓ | |
| 2050 | Coordination and Reliance | ✓ | | |
| 2060 | Reporting to Senior Management and the Board | ✓ | | |
| 2070 | External Service Provider and Organisational Responsibility for Internal Auditing | N/A | | |



| Performance Standards (2000 through 2600) - <i>continued</i> | | GC | PC | DNC |
|--|--------------------------------|----|----|-----|
| 2100 | Nature of Work | | | |
| 2110 | Governance | ✓ | | |
| 2120 | Risk Management | ✓ | | |
| 2130 | Control | ✓ | | |
| 2200 | Engagement Planning | | | |
| 2201 | Planning Considerations | ✓ | | |
| 2210 | Engagement Objectives | ✓ | | |
| 2220 | Engagement Scope | ✓ | | |
| 2230 | Engagement Resource Allocation | ✓ | | |
| 2240 | Engagement Work Program | ✓ | | |
| 2300 | Performing the Engagement | | | |
| 2310 | Identifying Information | ✓ | | |
| 2320 | Analysis and Evaluation | ✓ | | |
| 2330 | Documenting Information | ✓ | | |
| 2340 | Engagement Supervision | ✓ | | |
| 2400 | Communicating Results | | | |
| 2410 | Criteria for Communicating | ✓ | | |
| 2420 | Quality of Communications | ✓ | | |



| Performance Standards (2000 through 2600) - continued | | GC | PC | DNC |
|---|---|-----|----|-----|
| 2421 | Errors and Omissions | ✓ | | |
| 2430 | Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ” | ✓ | | |
| 2431 | Engagement Disclosure of Non-conformance | N/A | | |
| 2440 | Disseminating Results | ✓ | | |
| 2450 | Overall Opinions | ✓ | | |
| 2500 | Monitoring Progress | ✓ | | |
| 2600 | Communicating the Acceptance of Risks | ✓ | | |

| Code of Ethics | | GC | PC | DNC |
|----------------|----------------|----|----|-----|
| | Code of Ethics | ✓ | | |

APPENDIX B - RATING DEFINITIONS

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organisation.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

APPENDIX C – INDEPENDENT VALIDATION STATEMENT

SWAP Internal Audit Services was engaged to conduct an independent validation of ORBIS internal audit's self-assessment. The primary objective of the validation was to verify the assertions and conclusions made in the self-assessment report concerning adequate fulfilment of the organisation's basic expectations of internal audit, its conformity to The IIA's *International Standards for the Professional Practice of Internal Auditing*, LGANs and successful internal audit practices and opportunities for continuous improvement noted. Other matters that might have been covered in a full external assessment, such as an in-depth analysis of successful practices based on benchmark data, governance activities, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the Chief Internal Auditor.

In acting as the qualified, independent external assessor from outside the organisation, SWAP Internal Audit Services is fully independent of ORBIS Internal Audit Services and has the necessary skills to undertake this engagement. The validation, concluded on 17th January 2018, consisted primarily of a review and a test of the procedures and results of internal audit's self-assessment. In addition, interviews were conducted with key stakeholders including the Chief Executives, Heads of Finance, audit committee chairmen, other members of senior management, and the external auditors.

SWAP Internal Audit Services concurs with internal audit's conclusions and observations documented in their self-assessment. Implementation of the recommendations contained in this report will improve the effectiveness, enhance the value, and support internal audit's conformity with the *Standards* and the Code of Ethics.

A handwritten signature in black ink, appearing to read 'Gerry Cox'.

Gerry Cox

Chief Executive – SWAP Internal Audit Services

Independent External Assessor Performing the Validation

6th February 2018

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