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Audit Committee

Thursday, 11th July, 2019 at 5.30 pm
Conference Room, Parkside, Chart Way, Horsham

Councillors: Stuart Ritchie (Chairman)
 Paul Marshall (Vice-Chairman)
 Tony Bevis Ruth Fletcher
 John Blackall Jack Saheid
 Paul Clarke

You are summoned to the meeting to transact the following business

Glen Chipp
Chief Executive

Agenda

	Page No.
1. Apologies for absence	
2. Minutes	3 - 8
To approve as correct the minutes of the meetings held on 10 April 2019 and 22 May 2019	
<i>(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>	
3. Declarations of Members' Interests	
To receive any declarations of interest from Members of the Committee	
4. Announcements	
To receive any announcements from the Chairman of the Committee or the Chief Executive	
5. Audit results report	9 - 34
To receive the Audit Results Report for the year ending 31 st March 2019 – to be presented by the External Auditor	
6. Statement of Accounts	35 - 88

	To receive and approve the statement of accounts for 2018/19	
7.	Internal Audit reviews of Revenues and Benefits 2018/19 To receive a report from the Director of Corporate Resources.	89 - 94
8.	Internal Audit - Annual Report and Opinion 2018/19 To note the annual opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems.	95 - 114
9.	Risk Management - Quarterly Update To receive the quarterly report of the Director of Corporate Resources on risk management	115 - 126
10.	Annual Governance Statement To receive the Annual Governance Statement for 2018/19	127 - 148
11.	Treasury Management Activity and Prudential Indicators 2018/19 To receive a report from the Director of Corporate Resources	149 - 158
12.	Audit Work Programme 2019 To note the committees annual work programme.	159 - 160
13.	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	

Audit Committee
10 APRIL 2019

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

Apologies: Councillors: Paul Clarke

Also Present:

AAG/36 **MINUTES**

The minutes of the meeting held on 12 December 2018 were approved as a correct record and signed by the Chairman.

AAG/37 **DECLARATIONS OF MEMBERS' INTERESTS**

Councillor Paul Marshall declared a non-prejudicial interest in Item 8 as he was a County Councillor.

AAG/38 **ANNOUNCEMENTS**

The Chairman announced that an extra Audit Meeting would be held directly following the Annual Council meeting to elect a Chair and Vice-Chair.

AAG/39 **CERTIFICATION OF CLAIMS AND RETURNS 2017-18**

The External Auditor presented the Certification of Claims and Returns 2017/18.

The Council had previously received a recommendation to undertake their own internal review to improve subsidy claims in high risk of error areas. The External Auditor was satisfied with the level of internal review. No errors were identified during the 2017/18 certification initial testing, and there was a reduced number of errors identified in the additional testing performed based on prior year information. As a result of the audit, subsidy was increased by £166.

AAG/40 **AUDIT OF FINANCIAL STATEMENTS**

The External Auditor reported that they had successfully completed their interim audit visit. One accounting issue under IFRS9 was still being discussed with officers where there was currently a disagreement on accounting treatment. This was being discussed with national technical specialists as it is also an issue elsewhere. The external auditor hoped a solution would be found before the main audit started

AAG/41 **DRAFT ANNUAL GOVERNANCE STATEMENT 2018/19**

The Director of Corporate Resources present the Draft Annual Governance Statement 2018/19.

The action plan for 2018/19 had largely been completed. Revenues and Benefits systems were to be moved to Milton Keynes, this work had proved harder to implement than expected and was the only outstanding piece of work on the action plan.

It was reported that the new generator to be installed at the Hop Oast Depot was no longer needed as the power supply had been stabilised.

The Director of Corporate Resources summarised the content of the action plan for 2019/20. Modern.gov would be implemented across the Council for tracking and signing off of reports.

All Heads of Service would need to take review of their service's GDPR compliance on a quarterly basis.

RESOLVED

That the draft Annual Governance Statement for 2018/19 be approved.

AAG/42 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Corporate Resources reported that there had been little change to the Risk Register.

Risk CRR01a regarding the failure to achieve the required level of savings and income in the MTFS to 2019/20 had been removed.

Three risks remained as high risks:

- CRR01b Funding from Government is less generous than assumed in the Medium Term Financial Strategy (MTFS) from 2020
- CRR18 A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.
- CRR30 Increase in costs of homelessness, housing services, recycling and transport.

AAG/43 **HISTORIC ISSUE WITH THE COUNCIL TAX REDUCTION SCHEME**

The Director of Corporate Resources reported that the Revenues and Benefits service did not implement a Council decision in 2015. This issue was reported to Cabinet in January 2019. The reasons for why the Council's assurance

framework did not pick up the error had been reviewed and together with the actions officers were taking to improve Horsham District Council's governance.

AAG/44 **DRAFT ACCOUNTING POLICIES**

The Head of Finance presented the Accounting Policies, critical judgements and assumptions used in 2018/19 for summary prior to the audit and approval of the Statement of Accounts on 11 July 2019.

The Council's approach to IFRS 9 Financial Instruments was reported.

AAG/45 **INTERNAL AUDIT PROGRESS REPORT - QUARTER 3 (30/09/18 TO 31/12/18)**

The Chief Internal Auditor provided Members with an update on all internal audit and counter fraud activity completed during the quarter, including a summary of all key findings. The update included details of progress on delivery of the annual audit plan along with an update on the performance of the internal audit service during the period.

Overall, of the six formal audits finalised during Quarter 3, two received 'substantial assurance' opinions, and four received opinions of 'reasonable assurance'. There were no opinions of 'partial' or 'minimal assurance'. All performance targets had been assessed as on target.

No fraud had been identified in the three months prior to this meeting. National Fraud Initiative data matching reports had been received from the Cabinet Office.

One action was outstanding with regards to purchase Orders raised as a percentage of invoices received: A target of 60% had been reintroduced for 2017/18 and would be reported within the performance indicators to the Finance and Performance Committee on a quarterly basis. This had not been addressed as other areas of work within Finance have taken a higher priority.

The Internal Audit Plan had been amended to include audits on the following:

- Housing Benefits Subsidy
- Bomb/Lockdown procedures for Parkside and other HDC owned buildings
- The Council's Constitution
- Housing Company Business Case
- Technology One HR system

The General Data Protection Regulations (GDPR) audit had been postponed until May 2019 following the resignation of the Information Governance Officer and the upcoming Local and European Parliamentary elections.

AAG/46 **INTERNAL AUDIT STRATEGY 2019/20 AND ANNUAL PLAN**

The Chief Internal Auditor summarised the Internal Audit Strategy for 2019/20 and the Annual Audit Plan.

It was reported that the Chairman and Vice-Chair of the Audit committee had looked at the plan prior to the meeting and raised the suggestion of looking at the Year of Culture in quarter 1 rather than quarter 2 to ensure enough time for any necessary remedial action that may be needed.

The Chief Internal Auditor also summarised the Internal Audit Charter which had seen no changes.

RESOLVED

That the Council's Internal Audit Strategy 2019/20 and Annual Plan be approved.

AAG/47 **URGENT BUSINESS**

The Chairman thanked the Members of the Audit Committee and Officers for their work over the past four years.

The meeting closed at 6.28 pm having commenced at 5.30 pm

CHAIRMAN

Audit Committee
22 MAY 2019

Present: Councillors: Tony Bevis, John Blackall, Paul Clarke, Ruth Fletcher,
Paul Marshall, Stuart Ritchie and Jack Saheid

AAG/1 **ELECTION OF CHAIRMAN**

The Chairman of the Council, Councillor Rowbottom took the Chair for the election of a new Chairman for the Audit Committee. Councillor Ritchie was nominated by Councillor Clarke and seconded by Councillor Marshall. There being no other nominations, Councillor Ritchie was duly elected as Chairman of the Audit Committee for the municipal year 2019-20.

AAG/2 **ELECTION OF VICE CHAIRMAN**

Councillor Marshall was nominated as Vice Chairman by Councillor Blackall and seconded by Councillor Clarke. There being no other nominations, Councillor Marshall was duly elected as Vice-Chairman of the Audit Committee for the municipal year 2019-20.

AAG/3 **TIMES OF MEETINGS FOR THE MUNICIPAL YEAR**

RESOLVED

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

The meeting closed at 6.45 pm having commenced at 6.40 pm

CHAIRMAN

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**Horsham District
Council**
Audit results report
Year ended 31 March 2019

11 July 2019

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EY

Building a better
working world

Agenda Item 5



Private and Confidential

11 July 2019

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 preliminary audit conclusion in relation to the audit of Horsham District Council (the Council) for 2018/19.

We have substantially completed our audit of the Council for the year ended 31 March 2019, subject to concluding on the outstanding matters listed in this report.

We have no matters to report 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 11 July 2019.

Yours faithfully

Andrew Brittain

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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01 Executive Summary



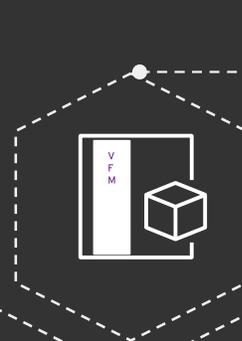
02 Areas of Audit Focus



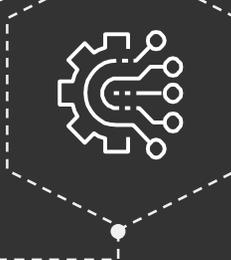
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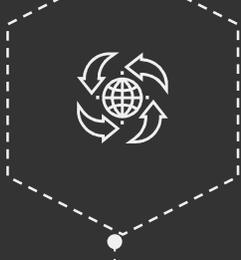
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05 Other reporting issues



06 Assessment of Control Environment



07 Independence



08 Appendices

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 April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit 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.

Executive Summary

Scope update

In our audit planning report tabled at the 12 December 2018 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 – £1.5m). This results in updated performance materiality, at 75% of overall materiality, of £1.2m, and an updated threshold for reporting uncorrected misstatements of £80,000.

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.

Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit planning report, Subject to satisfactory completion of the following outstanding items. Until work is complete, further amendments may arise:

- ▶ IFRS 9 - we are continuing to liaise with officers on the technical treatment of the Council's collective investment vehicles
- ▶ Receipt of the updated actuary report following the 'McCloud' judgement and the outturn of actual asset performance at 31 March 2019
- ▶ 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;
- ▶ receipt of the response from Those Charged with Governance; 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

At the time of writing, there are no unadjusted or adjusted audit differences arising from our audit. However, we are yet to conclude our work on the key areas of mentioned above. We will update this report and the Committee when the work listed above has been finalised.



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.

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 7 for our update on Independence.



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.

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.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

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:

- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered of the effectiveness of management's controls designed to address the risk of fraud.

performed mandatory procedures regardless of specifically identified fraud risks, including:

Reviewed the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of the financial statements.

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.

- ▶ In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure as set out on the next slide.



Areas of Audit Focus

Significant risk

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid

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What did we do?

Our approach will focus on:

- ▶ For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support the additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16.
- ▶ We extended our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- ▶ Journal testing - we used our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

We are satisfied that capital additions made in the year met the requirements of IAS 16, and had been correctly capitalised





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 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 2018/19 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?

We are satisfied that the value of the Council's land and building is fairly stated in the financial statements and is based on accurate supporting information.



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 2018 this totalled £10,313k.

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.

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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 the National Audit Office 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.

What are our conclusions?

At the time of writing, due to an ongoing national issue a potential late change may be required to the Council's pension net asset. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling". The draft accounts have recognised this matter as a contingent liability (note 31, page 47).

Since 31 May 2019 there have been increasing indications that this may not be the correct treatment, and may need to be incorporated into the assessment of the scheme liabilities at the balance sheet date depending on the materiality of the issue. Officers have requested their actuary update their estimate of net pension scheme liability taking into account the McCloud ruling and any difference between actual and estimated return on pension scheme assets.



Areas of Audit Focus

Other risk

IFRS 9 Financial instruments

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What is the risk?

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.

What did we do?

- we have:
- ▶ Assessed the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This involved:
 - ▶ Reviewing the Councils election to designate their collective investment vehicles as 'financial asset through other comprehensive income'
 - ▶ Considering whether the vehicles met the definition of equity under IAS 32 to allow the Council to make the election: and
 - ▶ Consulting internally with our financial reporting experts on the classification of the financial instruments
 - ▶ Considered the classification and valuation of all other financial instrument assets
 - ▶ Reviewed new expected credit loss model impairment calculations for assets; and
 - ▶ Checked additional disclosure requirements.

What are our conclusions?

Due to an ongoing national issue - we are continuing to liaise with officers on the technical treatment of the Council's collective investment vehicles.



Areas of Audit Focus

Other risk

IFRS 15 Revenue from contracts with customers

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What is the risk?

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced

What did we do?

We have:

- ▶ Assessed the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- ▶ Considered application to the authority's revenue streams, and where the standard is relevant tested to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- ▶ Checked additional disclosure requirements.

What are our conclusions?

We are satisfied that officers have implemented IFRS 15 appropriately. The new standard did not have a material impact on the financial statements.



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.

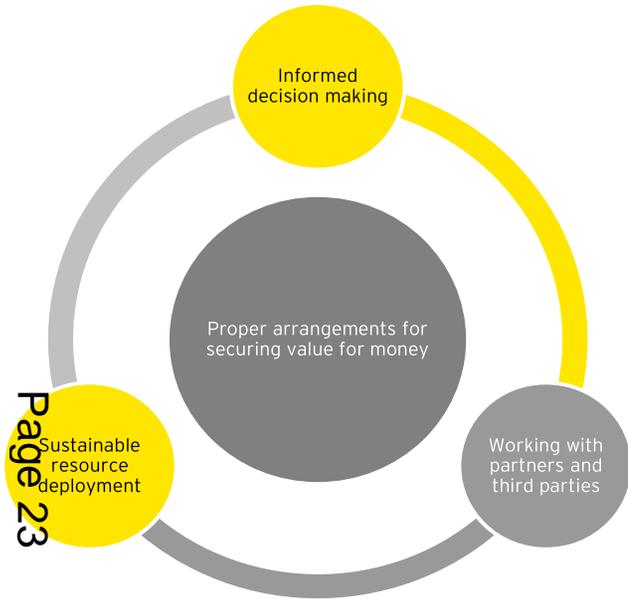
Summary of adjusted differences

We highlight any misstatements greater than £1.2 million which have been corrected by management during the course of our audit. At the time of writing there are no corrected misstatements above this level to bring to your attention.

We report to you any uncorrected misstatements greater than our nominal value of £81,000. At the time of writing there are no uncorrected misstatements to bring to your attention.



Value for Money



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 2018/19 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 did not identify any significant risks around these criteria

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

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 2018/19 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 2018/19 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.

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.



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.

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 12 December 2018.

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 11 July 2019.

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 2018 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 2019 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 2019.

We confirm that we have undertaken non-audit work outside the NAO Code requirements being the certification of the housing Benefits Grant claim. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee - Code work	TBC*	38,572	38,572	57,094
Non-audit work - Grant claims	TBC	5,942	n/a	12,383
Total non-audit services	TBC	5,942	n/a	12,383

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* as noted elsewhere in this report we have still to conclude our work on the implementation of IFRS 9 and therefore we are not in a position yet to confirm the final fee. Any variation to the scale fee would need to be agreed with officers and subsequently approved by PSAA.

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 2018
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 2018
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 2018

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 2019
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 2019
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 2019

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 2019
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 2018 and Audit results report - July 2019
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 2019
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 2019
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 2019
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 2019

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 2019
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 2018 and Audit results report - July 2019
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Report - January 2020

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ED None

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Report to Audit Committee

11 July 2019

By the Director of Corporate Resources

DECISION REQUIRED



Not Exempt

Statement of Accounts 2018/19

Executive summary

It is a legal requirement of the Accounts and Audit (England) Regulations 2015 that the Statement of Accounts is approved by a resolution of the Council or the relevant Committee of the Council by 31 July 2019. 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 EY and the Audit Results Report is also on the agenda for this meeting.

At the time of the report, three outstanding issues need to be resolved before the accounts can be approved. The actuary is re-running the IAS19 report to update the numbers for two issues relating to the pension fund. The third issue involves the technical treatment of the Council's pooled funds and officers are discussing this with the auditors. This is also being discussed at a national level.

Recommendations

That the Committee is recommended:

- i) To approve the 2018/19 Statement of Accounts, or should any of the three issues be unresolved at the date of the committee, delegate the approval to the Chairman of the Audit Committee, in consultation with the Director of Corporate Resources, to be done before 31 July 2019.

Reasons for recommendations

- i) It is a requirement of the Accounts and Audit (England) Regulations 2015 that the Statement of Accounts are approved by 31 July 2019.

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 2015 that the statutory Statement of Accounts are approved by a resolution of the Council or the relevant Committee of the Council by 31 July 2019. 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 2018/19 which are based on International Financial Reporting Standards. The Statement of Accounts have been subject to audit by EY.

2 Relevant Council policy

- 2.1 The Council is required to produce financial statements under the Accounts and Audit (England) Regulations 2015.

3 Details

- 3.1 The audit of the draft financial statements has identified three issues. The audit results report sets out the significant issues and findings to bring to your attention. This covering report sets out the actions being undertaken by officers to resolve these issues.
- 3.2 On 27 June 2019, we commissioned the actuary to re-run the IAS19 pension fund report to update and reflect the actual asset valuation at 31 March 2019 and to incorporate the 'McCloud' ruling on age discrimination into the scheme liabilities. We have been informed that the reports will not available from the actuary until 4 July 2019.
- 3.3 Upon receipt of the updated IAS19 report, we will review the changes and if satisfied with the information and assumptions used, update the statement of accounts in the following areas:
 - The asset value in the balance sheet is expected to increase by around £488k. Amendments will also be required in the actuarial loss on pensions asset in the CIES and in the detail in Note 30.
 - The impact on the liabilities is expected to be material and increase the pension fund liabilities, therefore reducing the pension asset value on the balance sheet. Amendments will also be required in the detail in Note 30, the removal of the issue as a contingent liability in Note 31 and to update the statement of accounts to inform the readers on the key judgements used, the estimation process and sensitivities and the assumptions used in the modelling.
- 3.4 Officers are in discussion with the auditors over the classification of the pooled funds investments under IFRS9. This is also a national issue, and we are in contact with our expert advisor Arlingclose Ltd, other authorities, and awaiting guidance from CIPFA. The auditor disagrees with our irrevocable election of the long term holdings of strategic investments where fair value changes are not considered part of the authority's annual performance – namely the £16.7m balances in pooled

funds - as Fair Value through Other Comprehensive Income, as shown in Note 14. If unresolved, this could potentially have an effect on the auditor's opinion on the statement of accounts.

- 3.5 We are continuing the discussions with EY. We are also considering whether to consult legal counsel to further substantiate our position.

4 Next steps

- 4.1 The committee is asked to approve the Statement of Accounts 2018/19, or, should any of the three issues be unresolved by the date of the audit committee, delegate this authority to the Chairman of the Audit Committee, in consultation with the Director of Corporate Resources.

5 Outcome of consultations

- 5.1 No consultations were required. Audit Committee Members were briefed on the Statement of Accounts and the three issues on 1 July 2019.

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 2019.

9 Other considerations

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

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**Horsham
District
Council**

Statement of Accounts 2018/19

Audited – Audit Committee

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Narrative Statement

INTRODUCTION

Welcome to Horsham District Council's Statement of Accounts for 2018/19. 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 2018 to 31 March 2019 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 2018/19.

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 135,000 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 2017 Rateable Value (RV) listing, which started at £114m on 1 April 2017, ended 31 March 2019 at £112.1m. There have been some additions to the list during the year, but significant office and retail space demolitions have affected the list contributing to the £0.78m fall in 2018/19, which follows the £1.16m reduction in 2017/18. Whilst some of these sites are being redeveloped for commercial purposes and will come back on the RV list, some are being converted into housing.

Central Government's revenue funding in the form of Revenue Support Grant (RSG) and Business Rates Spending baseline fell by £0.3m from 2017/18 levels, which was a 13 percent fall. 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 2018/19

The Council monitors financial and non-financial performance indicators on a monthly basis. It measures and publishes its performance using a set of 42 key performance indicators which cover many of the Council's key services. The final figures for the 2018/19 year are reported to Overview and Scrutiny Committee in July 2019). 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 2018/19 period.

These indicators show positive performance across most areas, with all the indicators at or close to target. The recycling rate has improved above the EU 50% target following the introduction of changes to collection routes and processes in the waste collection service. Whilst close to target, collection levels of business rates remains below the West-Sussex average and percentages of invoice paid on time have fallen slightly below the 95% target. Due to garden waste and parking disc renewal demands and in the lead up to elections, the percentage of customer calls being abandoned hit 7%, which was above than the 5% target. Temporary customer service staff were employed to cover peak times.

Employees

The number of permanent employees was 385.6 FTE at 31 March 2019 (397.8 at 31 March 2018). There were 6.5 sickness days per FTE employees (6.8 days at 31 March 2018) and remains 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 £103.81m 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 98.57% of the total amount due which was slightly less on 2017/18 (98.83%) 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 2019/20.

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 2019. A total of £2.11m (£2.11m in 2017/18) has been allowed against debts of £3.40m (£3.38m in 2017/18) outstanding as at 31 March 2019. The Council's share of the allowance is £254k (£260k in 2017/18).

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 2019. A total of £1.29m (£0.99m in 2017/18) has been allowed against debts of £2.50m (£1.89m in 2017/18) outstanding as at 31 March 2019. The Council's share of the allowance is £517k (£438k in 2017/18).

In the 2018/19, there has been £0.751m of uncollectable amounts written off (£1.056m in 2017/18).

A provision for appeals made against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2019 has been made of £6.23m (£4.61m in 2017/18). The Council's share (40%) is £2.49m (£1.84m in 2017/18), as detailed in the Provisions note 18.

BUDGET 2018/19

In 2018/19, the total expenditure incurred by the Council was £75.8m; 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 2018/19 of £10.7m at the formal meeting on 21 February 2018.

	£000
Net expenditure	10,714
Funded by:	
Council Tax	9,144
Revenue Support Grant	0
Business Rates baseline funding	1,899
Additional Business rates	200
Collection fund surplus	82
Total funding	11,325
(Surplus) / Deficit	(611)

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 2018/19, 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 2019 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 2018/19

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 2018/19 year-end revenue and capital outturn is reported to both Cabinet and O&S Committee in July.

The variance against original budget was reported as a surplus of £0.828m. There was £0.201m of revenue budgets, intended for projects in 2018/19, which were unspent and carried forward to 2019/20. After allowing for the budgeted transfers to reserves and other transfers to earmarked reserves, the outturn surplus has increased the in-year surplus on the General Fund to £2.571m as shown below.

	£000
Outturn variance reported	(828)
Budgets brought forward from 2017/18 (including repairs and renewals)	158
Budgets carried forward to 2019/20	(201)
Underspend of MRP against budget	2
Other adjustments	<u>(1,702)</u>
Surplus on General Fund (after transfers to earmarked reserves)	(2,571)

The General Fund shows a net surplus of £2.571m on expenditure and income transactions in the year. The Comprehensive Income and Expenditure Statement shows a surplus for the year of £2.883m, comprising a surplus on the provision of services of £7.003m and a deficit of £4.120m 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 £2.571m 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 £2.399m is a charge for the use of assets that reflects the notional consumption of assets during the year and gains of £3.260m have been credited on the revaluation of assets.
- ii) **A charge for revenue expenditure funded from capital under statute (REFCUS).** A charge of £1.941m 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 £6.492m have been credited in accordance with proper accounting practice. However these grants are used to fund the Council's capital programme and do not fall into the General Fund.
- iv) **A charge for pensions** of £1.836m representing the difference between the accounting cost of pensions of £4.318m (as estimated by the Pension Fund actuary in accordance with IAS19) and the actual employer contributions of £2.482m 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 £1.213m. 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 2018/19 the amount set aside was £0.870m (2017/18 £0.924m). 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	(2,571)
Transfers (to) / from earmarked reserves	(5,405)
Accounting adjustments	
Charge for depreciation	2,399
Revaluation of non-current assets	3,260
Revenue expenditure charged to capital	1,941
Capital grant income	(6,264)
IAS19 pension costs	1,836
(Gain) / loss on disposal of assets	(1,213)
Minimum Revenue Provision	(870)
Share of in year surplus on the Collection Fund	387
Other technical adjustments	(503)
Surplus on provision of services per CIES	(7,003)

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 £27.4m in 2018/19, the Council's capital spending for the year was £14.5m across a range of over 60 capital schemes. The majority was spent in the following six key areas:

- £5.8m completing the building of the Bridge, a £12.3m leisure centre in Broadbridge Health, which opened in November 2018.
- £3.6m on Piries Place car park; a £8m facility to replace the old car park with a fit for purpose structure, and creating additional capacity in Horsham town centre
- £1.4m on disabled facilities using Government grant funding to help disabled residents live in their homes.
- £1.1m on a building temporary accommodation in Horsham
- £0.5m Housing enabling grants to increase the number of affordable homes in the district
- £0.5m property investment to generate a revenue return

£10.5m unspent capital budget has been re-profiled into 2019/20 and later years including the following larger schemes:

- £4.4m of the Piries car-park budget, following some initial delays to the project before building work started.
- £1.3m of temporary accommodation in Billingshurst, following the initial re-design of the scope and decoupling from the temporary accommodation scheme in Horsham and subsequent re-programming.

Where not re-profiled, unspent budgets are removed from the capital programme, as the original schemes are either superceded or no longer needed. £2.5m of the annual £3m property investment budget was not spent in 2018/19 as suitable property was not identified. This budget has not been rolled into 2019/20 as £3m budget for annual property investment is already in place.

FINANCIAL POSITION AT 31 MARCH 2019

The net worth of the District Council is shown in the Balance Sheet. It has increased by £2.9m from 31 March 2018. This is a result of an increase in the Council's unusable reserves of £2m, which includes accounting adjustments related to non-current assets and pensions.

Property, Plant and Equipment value has increased by £3.9m to £109m. Investment Property value has also risen by £4.3m to £50.9m due to net gains from fair value adjustments as well as the £0.5m addition in year.

The net pension asset decreased by £7.65m from a net pension surplus of £10.31m at 31 March 2018 to a net pension surplus of £2.66m at 31 March 2019, reflecting changes in the financial assumptions used by the Actuary and fluctuations in the values of assets and liabilities. This largely reverses the £8.3m gains made during 2017/18. In 2018/19, corporate bonds yields are lower, which serves to increase the value placed on the obligations. The effect of this is partially offset by investment returns being greater than the 31 March 2018 discount rate. This represents 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 2018/19 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 increased by £4.5m to £33.5m during 2018/19. The Council's level of General Reserves held at 31 March 2019 stands at £14.2m. 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 had a single £4m PWLB loan which was due to be paid back at 31 March 2019. However, as 31 March 2019 was a Sunday, this was not repaid until Monday 1 April 2019. It therefore shows in the balance sheet as short-term borrowing.

FINANCIAL OUTLOOK INCLUDING STRATEGY AND RESOURCE ALLOCATION

Despite ongoing financial uncertainty and the reduction in central government funding, the Council set a £1.4m budget surplus for 2019/20. It has done this through internal efficiencies, income generation and an inflationary increase in Council Tax. Government also unexpectedly eliminated negative Revenue Support Grant in the Settlement for 2019/20 that left the Council £0.7m better off than expected. Further ahead, the Medium Term Financial Strategy has already identified further areas of income generation and efficiencies that if delivered, should result in near balanced budgets between 2020/21 and 2022/23.

The transformation programme 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.

The programme of transformational efficiencies ranges from self-service, changing ICT technology, contract reviews and redesign of business processes. The Council has also identified around £1m of new income sources and additional income expected from a growth in the number of users. The Council is also mid-way through a five year, £15m property investment programme 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 surplus in 2019/20 will help fund this investment and also provide additional reserve to help mitigate any impact during Britain's exit from the European Union.

The MTFs has been prepared with a high level of uncertainty around the future of business rates and the Fair Funding review. 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.

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 £5.3m of cash and cash equivalents. The level of general reserves is larger than the amount of income and savings needed to balance the budgets by 2022/23. The value of treasury investments including those classified as cash and cash equivalents ended the year at £36.3m.

Over the last 12 months, the Council has made some significant decisions that 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 2018/19 or planned to complete over the next twelve months:

- Broadbridge Heath Leisure Centre: The new £12.3m leisure centre facility opened in November 2018.
- Piries Place Car Park: The £8m replacement car park will open during 2019, creating 200 additional spaces in the town centre.
- Temporary accommodation: The Council is spending £3m on two sites in Billingshurst and Horsham that will be used as seventeen affordable short stay temporary accommodation units 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 will open in 2019.

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 that 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 recession
- significant economic uncertainty from world events, including Britain's exit from the European Union.
- further or steeper funding cuts / to help government meet their deficit reduction targets especially beyond the current settlement period (2020).
- Fair Funding Review outcomes, including any impact on locally generated sales, fees and charges
- legislation forcing local government to pick up additional responsibilities that we don't yet know about

The work under the transformational 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 31 May 2019 to 11 July 2019. 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 2018/19 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 2019.

Jane Eaton C.P.F.A.
Director of Corporate Resources
xx July 2019

APPROVAL OF THE ACCOUNTS

I hereby certify that the Statement of Accounts 2018/19 have been approved by the Council's Audit Committee under delegated powers at a meeting held on...

Councillor Stuart Ritchie
Chairman of the Audit Committee
xx July 2019

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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 2017	(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 (restated)	(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)	
Movement in reserves during 2018/19:							
Transition to IFRS 9	0	0	0	0	7	7	14
(Surplus) or deficit on provision of services	(7,003)	0	0	(7,003)	0	(7,003)	7
Other Comprehensive Expenditure and Income	0	0	0	0	4,120	4,120	
Total Comprehensive Expenditure and Income	(7,003)	0	0	(7,003)	4,127	(2876)	
Adjustments between accounting basis & funding basis under regulations	4,922	(294)	(2,694)	1,934	(1,934)	0	7,11
Increase/Decrease (movement) in Year	(2,081)	(294)	(2,694)	(5,069)	2,193	(2,876)	
Balance at 31 March 2019 carried forward	(23,003)	(1,327)	(9,145)	(33,475)	(129,414)	(162,889)	

Comprehensive Income and Expenditure Statement

2018/19			2017/18			Note
Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure	
£000	£000	£000	£000	£000	£000	
2,488	(63)	2,424	2,586	(638)	1,948	
13,639	(4,079)	9,560	8,619	(3,568)	5,051	
1,326	(17)	1,309	1,306	(18)	1,288	
416	(11)	405	390	(8)	382	
3,310	(1,141)	2,169	1,814	(796)	1,018	
1,935	(1)	1,934	2,189	(1)	2,188	
1,665	(167)	1,498	1,545	(126)	1,419	
3,690	(4,713)	(1,023)	2,726	(4,629)	(1,903)	
4,910	(3,259)	1,651	4,672	(2,621)	2,051	
1,766	(195)	1,571	1,613	(146)	1,467	
9,427	(4,856)	4,571	13,025	(4,562)	8,463	
31,201	(30,726)	475	33,362	(32,739)	623	
75,773	(49,229)	26,543	73,847	(49,852)	23,995	7
		2,011			1,659	8
		(8,625)			(2,829)	9
		<u>(26,932)</u>			<u>(22,149)</u>	10
		(7,003)			676	7
		(1,551)			(4,857)	12
		5,820			(10,046)	30
		<u>(149)</u>			<u>399</u>	
		4,120			(14,503)	
		(2,883)			(13,827)	

Balance Sheet

<u>31.03.2019</u>		<u>31.03.2018</u>	Note
£000	NON-CURRENT ASSETS	£000	
	Property, Plant and Equipment		
99,144	- Other Land and Buildings	94,808	12
3,775	- Vehicles, Plant, Furniture & Equipment	4,329	12
6,098	- Assets under construction/Awaiting Development	5,975	12
531	Heritage Assets	531	
50,909	Investment Property	46,600	13
30	Intangible Assets	8	
350	Assets Held for Sale	0	
2,657	Pension Asset	10,313	30
259	Long-term Debtors	296	
<u>16,747</u>	Long-term Investments	<u>17,632</u>	14
180,500	TOTAL LONG-TERM ASSETS	180,492	
13,381	Short - term Investments	14,197	14
139	Inventories	122	
5,939	Short -term Debtors	6,719	16
<u>5,297</u>	Cash and Cash Equivalents	<u>5,537</u>	15
24,756	CURRENT ASSETS	26,575	
(4,000)	Short-term borrowing	(4,000)	14
<u>(11,672)</u>	Short-term Creditors	<u>(14,344)</u>	17
(15,672)	CURRENT LIABILITIES	(18,344)	
(161)	Provisions	(226)	18
(2,493)	Provision for Business Rates Appeals	(1,844)	18
(236)	Council tax and NDR appropriations	0	
(8,737)	Long-term liabilities - S106 Contribution	(10,071)	18
(239)	CIL Contribution	0	
(792)	- Rent Deposits and Other Balances	(910)	
(14,037)	Capital Grants & Receipts in Advance	(15,659)	18
(26,695)	LONG-TERM LIABILITIES	(28,710)	
162,889	NET ASSETS	160,013	
	Usable Reserves		
(23,003)	- Reserves	(20,922)	19
(1,327)	- Capital Receipts Reserve	(1,033)	19
(9,145)	- Capital Grants & Contributions Unapplied	(6,452)	19
	Unusable Reserves		
(34,516)	- Revaluation Reserve	(33,517)	20
(2,657)	- Pensions Reserve	(10,313)	20,30
(93,380)	- Capital Adjustment Account	(88,645)	20
0	- Financial Instrument Available for Sale Reserve	295	
113	- Pooled Fund Adjustment Account	0	
33	- Financial Instrument Revaluation Reserve	0	
0	-Financial Instrument Adjustment Account	(26)	
832	-Collection Fund Adjustment Account	445	20
<u>161</u>	-Accumulating Absences Adjustment Account	<u>155</u>	
(162,889)	TOTAL RESERVES	(160,013)	

These financial statements replace the unaudited financial statements certified by the Director of Corporate Resources on 31 May 2019

Jane Eaton C.P.F.A. Director of Corporate Resources xx July 2019

Cash Flow Statement

<u>2018/19</u>		<u>2017/18</u>	<u>Note</u>
£000		£000	
	<u>Operating activities</u>		
(7,003)	(Surplus) or deficit on provision of services	676	7
(888)	Adjust net surplus or deficit on the provision of services for non- cash movements	(7,689)	21
7,669	Adjust for items in the net deficit on the provision of services that are investing or financing activities	4,178	21
(222)	Net cash flows from Operating activities	(2,835)	
	<u>Investing activities</u>		
12,695	Purchase of property, plant and equipment, investment property and intangible assets	27,139	
10,950	Purchase of short-term and long-term investments	156,430	
387	Other payments for investing activities	6	
(171)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(645)	
(12,781)	Proceeds from short-term and long-term investments	(169,864)	
(10,772)	Other receipts from investing activities	(12,468)	
308	Net cash flows from investing activities	598	
	<u>Financing Activities</u>		
154	Other receipts from financing activities	949	
0	Other payments for financing activities	0	
154	Net cash flows from financing activities	949	
240	Net (increase) or decrease in cash and cash equivalents	(1,288)	
5,537	Cash and cash equivalents at 1 April	4,249	15
5,297	Cash and cash equivalents at 31 March	5,537	15

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

Financial Liabilities

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

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

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

- amortised cost

- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest.

Financial Assets Measured at Amortised Cost

Financial assets are initially measured at fair value. They are subsequently measured at their amortised cost. Annual income appears in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

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

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

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

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

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

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Statutory arrangements protect the General Fund Balance from this charge and this is therefore reversed out of the General Fund Balance to a reserve in the Movement in Reserves Statement.

Financial Assets Measured at Fair Value through other comprehensive income

The Council designates specific financial assets as measured at Fair Value through other comprehensive income. This designation is specific and irrevocable. These assets are initially measured and carried at fair value. Fair value gains and losses are recognised in the Financial Instrument Revaluation Reserve and in the 'Surplus or deficit from investments in equity instruments designated at fair value through other comprehensive income' line in the Comprehensive Income and Expenditure Statement.

On the de-recognition of an asset any gains and losses that arise are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Any accumulated gains or losses relating to the asset previously recognised in the Financial Instrument Revaluation Reserve are transferred to the General Fund in the Movement in Reserves Statement.

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 2018/19 (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 2018/19 Statement of Accounts there are a number of accounting changes that need to be reported. These relate to:

- Annual Improvements to IFRS Standards 2014-16 cycle
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation
- Amendments to IAS40 Investment Property: Transfers of Investment Property

These amendments are minor, and they are not expected to have a material impact on the Statement of Accounts.

IFRS 16 Leases has been issued by IASB. This has been postponed until at least the 2020/21 CIPFA Accounting Code of Practice and will require Council's that are lessees to recognise the majority of leases on their balance sheets as right-of-use assets with corresponding lease liabilities

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 Councils 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 £148k.
- 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. The Council was previously contracted into a shared arrangement for its ICT and Revenues and Benefits functions, called CenSus Shared Services Partnership during 2017/18.

The Partnerships met 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.

As such we recognised our proportional share of assets, liabilities, revenues and expenses of the arrangement in our accounts. These are now in some comparator notes.

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 2019 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 2018/19 the actuaries advised that the pension liability had been affected as follows:

<u>Change in assumptions year ended 31 March 2019</u>	Horsham	
	Approximate % increase to Employer	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	9%	16,596
1 year increase in member life expectancy	3% to 5%	6,972
0.5% increase in Salary Increase Rate	1%	2,001
0.5% increase in the Pension Increase Rate	8%	14,340

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 £367k.

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 £0.031m.

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 £6.2m as an estimate of potential successful appeals up to 31 March 2019, the Council's proportion (40%) reflected in the Balance Sheet is £2.5m. This estimate is calculated using Valuation Office ratings list of appeals and an analysis of successful appeals to date.

4 PRIOR PERIOD ADJUSTMENTS -

There have been no prior period adjustments.

5 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 2017/18 or 2018/19 other than disclosed on the face of the Comprehensive Income and Expenditure Statement.

6 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts were authorised for issue by the Director of Corporate Resources for Horsham District Council on 11 July 2019. 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 2019, 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.

Net Expenditure Chargeable to the General Fund Balance	2018/19			2017/18		
	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)		
1,509	915	2,424	Audit, Finance, HR & Commissioning	1,511	438	1,949
2,409	7,151	9,560	Community & Culture	2,362	2,689	5,050
1,167	142	1,309	Corporate Management	1,105	184	1,289
365	40	405	Customer Services	344	37	382
392	1,777	2,169	Housing Services	422	595	1,017
1,549	384	1,934	ICT	1,757	430	2,188
1,488	10	1,498	Legal and Democratic Services & Elections	1,369	51	1,419
(2,660)	1,638	(1,023)	Parking	(2,651)	748	(1,903)
1,330	321	1,651	Planning & Economic Development	1,743	308	2,051
(2,489)	4,060	1,571	Property & Facilities	(1,721)	3,187	1,466
3,131	1,439	4,571	Refuse, Cleansing & Environmental Services	3,604	4,859	8,463
973	(498)	475	Revenues & Benefits	577	46	623
9,164	17,379	26,543	Net cost of services	10,423	13,571	23,994
(11,245)	(22,301)	(33,546)	Other income and expenditure	(11,903)	(11,417)	(23,319)
(2,081)	(4,922)	(7,003)	Surplus or deficit	(1,480)	2,155	676
(20,922)			Opening General Fund Balance 31 March 2018	(19,993)		
(2,081)			Less Deficit on General Fund in Year	(1,480)		
(23,003)			Closing General Fund Balance	(21,473)		

7a ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS

2018/19

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	129	747	39	915
Community & Culture	6,757	321	0	73	7,151
Corporate Management	0	141	0	1	142
Customer Services	0	40	0	0	40
Housing Services	1,784	71	0	(78)	1,777
ICT	263	96	0	25	384
Legal and Democratic Services & Elections	0	90	0	(80)	10
Parking	1,571	87	0	(20)	1,638
Planning & Economic Development	5	435	0	(119)	321
Property & Facilities	(3,600)	61	0	7,599	4,060
Refuse, Cleansing & Environmental Services	819	615	0	5	1,439
Revenues & Benefits	0	0	0	(498)	(498)
Other income and expenditure from the Funding Analysis	(8,358)	(250)		(13,693)	(22,301)
Difference between General Fund (Surplus) or deficit and Comprehensive Income and Expenditure (surplus) or deficit on the provision of services	(759)	1,836	747	(6,746)	(4,922)

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)

8 OTHER OPERATING EXPENDITURE

	2018/19	2017/18
	£000	£000
Parish council precepts	3,224	2,891
Parish grants	0	9
(Gains)/losses on the disposal of non-current assets	(1,213)	(1,241)
Total	2,011	1,659

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2018/19	2017/18
	£000	£000
Interest payable and similar charges	135	140
Net interest cost on LGPS Pension	(250)	(13)
Interest receivable and similar income	(882)	(961)
Income and expenditure in relation to investment properties and changes in their fair value (as detailed in note 13)	(7,628)	(1,995)
Total	(8,625)	(2,829)

10 TAXATION AND GRANT INCOME

	2018/19	2017/18
	£000	£000
Benefits Grants	(29,026)	(30,680)
Other Government Grants	(1,077)	(816)
Other Grants	(421)	(347)
Grants credited to Services	(30,524)	(31,843)
Council Tax	(12,470)	(11,720)
Non Domestic Rates income & expenditure	(1,153)	(807)
Revenue Support Grant	0	(149)
New Homes Bonus	(4,827)	(4,820)
Section 31 Grant – Business Rates Reliefs	(2,113)	(1,605)
Other Government Grants	(106)	(291)
Capital grants and contributions	(6,264)	(2,757)
Credited to Taxation and Non Specific Grant Income	(26,932)	(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.

2018/19	Usable Reserves		
	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£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	(2,399)		2,399
Impairment on Property, Plant and Equipment	(7,022)		7,022
Other gains transferred from Revaluation Reserve			
Movements in the market value of Investment Properties	3,762		(3,762)
Amortisation of intangible assets			
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			

Revenue expenditure funded from capital under statute	(1,941)		1,941
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			
Statutory provision for the financing of capital investment	870		(870)
Capital expenditure financed from revenue balances	6,418		(6,418)
Adjustments primarily involving the Capital Grants Unapplied Account:			
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	6,264	(2,802)	(3,462)
Application of grants to capital financing transferred to the Capital Adjustment Account		108	(108)
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	1,225	(1,278)	53
Use of the Capital Receipts Reserve to finance new capital expenditure		984	(984)
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	(26)		26
Adjustments primarily involving the Pensions Reserve:			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(4,361)		4,361
Employers pension contributions and direct payments to pensioners payable in the year	2,525		(2,525)
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	(387)		387
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	(6)		6
Total Adjustments	4,922	(294)	(2,694)
			(1,934)

2017/18

	Usable Reserves		
	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£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	(2,004)		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			

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
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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
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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
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Total Adjustments	(1,603)	4,242	(1,166)	(1,473)
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12 PROPERTY, PLANT & EQUIPMENT

Movements in 2018/19

	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant & Equipment
Cost or Valuation	£000	£000	£000	£000
At 1 April 2018	95,392	11,928	5,974	113,295
Additions	6,459	537	5,134	12,130
Reclassifications	4,595		(4,965)	(370)
Revaluation increase/(decreases) recognised in the Revaluation Reserve	1,551			1,551
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(7,020)		(6)	(7,026)
De-recognition – disposal		(4,529)		(4,529)
Other movements in cost or valuation	(1,456)			(1,456)
At 31 March 2019	99,521	7,936	6,137	113,594
Accumulated Depreciation and Impairment				
At 1 April 2018	(584)	(7,599)	0	(8,183)
Depreciation charge	(1,288)	(1,091)		(2,379)
Written out to the Revaluation Reserve	1,038			1,038
Written out to the Surplus/Deficit on the Provision of Services	418			418
Other movements		4,529		4,529
At 31 March 2019	(416)	(4,161)	0	(4,577)
Net Book Value				
At 31 March 2019	99,144	3,775	6,098	109,017
At 31 March 2018	94,808	4,329	5,975	105,112

Movements in 2017/18

	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant & Equipment
Cost or Valuation	£000	£000	£000	£000
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)
Depreciation written out to the Revaluation Reserve	799			799
Depreciation written out to the Surplus/Deficit on the Provision of Services	360			360
De-recognition	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

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.

Assets Held for Sale

Three assets valued at £0.367m were transferred from Other Land and Buildings during the year.

Capital Commitments

At 31 March 2019, the Council was committed to the following significant capital works contracts (£5.9m in 2018):

Capital scheme	£000
Pirie's Place Car Park	3,272
Temporary accommodation - Rowan Drive and Peary Close	1,545
Total	4,817

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	Vehicles, Plant, Furniture & Equipment	Total
	£000	£000	£000
Carried at historical cost		3,774	3,774
Valued at fair value as at			
31 March 2019	80,906		80,906
31 March 2018	10,999		10,999
31 March 2017	3,752		3,752
31 March 2016	3,466		3,466
31 March 2015	22		22
	99,145	3,774	102,919

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:

	2018/19	2017/18
	£000	£000
Income from investment property	(4,402)	(3,374)
Direct operating expenses arising from investment property	536	299
Net (gains)/losses from fair value adjustments	(3,762)	1,080
Net (gain)/loss	(7,628)	(1,995)

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:

	2018/19	2017/18
	£000	£000
Balance at start of year	46,600	35,461
Additions	541	12,300
Net gains/(losses) from fair value adjustments	3,766	(1,161)
Transfers	2	0
Balance at end of the year	50,909	46,600

14 FINANCIAL INSTRUMENTS

Financial Instruments - Classifications

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, benefits and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's financial liabilities held during the year are measured at amortised cost and comprised loan from Public Works Loan Board repayable at the end of 2018/19 and trade payables for goods and services received.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following three classifications:

- **Amortised cost** (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:
 - cash in hand,
 - bank current and deposit accounts with NatWest bank,
 - fixed term deposits with banks and building societies,
 - loans to other local authorities,
 - loans to local leisure facility provider made for service purposes,
 - receivables for rent and services provided.
- **Fair value through other comprehensive income** (equity investments that the Council has elected into this category) comprising pooled bond, equity and property funds managed by CCLA, Investec, M&G, UBS, and Threadneedle fund managers held as strategic investments.
- **Fair value through profit and loss** (all other financial assets) comprising money market funds managed by Royal London, Payden Rygel, CCLA, Aberdeen Standard, BNP Paribas and Goldman Sachs fund managers.

Financial assets held at amortised cost are shown net of a loss allowance (where material) reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

Financial Instruments - Balances

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities	Long Term		Short Term	
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	£000	£000	£000	£000
Loans at amortised cost:				
- PWLB borrowing*			(4,067)	(4,000)
Total Borrowing	0	0	(4,067)	(4,000)
Liabilities at amortised cost:				
- Trade payables			(12,426)	(14,272)
Included in Creditors **	0	0	(12,426)	(14,272)
Total Financial Liabilities	0	0	(16,493)	(18,272)

* Includes accrued interest on £4m loan

** The various liabilities lines on the Balance Sheet include £8.9m (2018: £11.0m) short-term creditors that do not meet the definition of a financial liability as they relate to non-exchange transactions.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

Financial Assets	Long Term		Short Term	
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	£000	£000	£000	£000
<i>At amortised cost:</i>				
- Principal incl accruals		2,000	4,014	4,814
<i>At fair value through other comprehensive income:</i>				
- Equity investments elected FVOCI	16,747	15,632		
<i>At fair value through profit & loss:</i>				
- Fair value			9,367	9,382
Total Investments *	16,747	17,632	13,381	14,196
<i>At amortised cost:</i>				
- Principal incl accruals			1,294	537
<i>At fair value through profit & loss:</i>				
- Fair value			4,003	5,000
Total Cash and Cash Equivalents	0	0	5,297	5,537
<i>At amortised cost:</i>				
- Receivables			3,372	3,889
- Loans made for service purposes	248	282		
- Loss allowance	(7)	(7)	(233)	(230)
Included in Debtors **	241	275	3,139	3,659
Total Financial Assets	16,988	17,907	21,810	23,385

* The total short-term investments includes £0.006m (2018: £0.075m representing accrued interest

** The debtors lines on the Balance Sheet include £2.8m (2018: £3m) short-term debtors that do not meet the definition of a financial asset as they relate to non-exchange transactions.

Equity instruments elected to fair value through other comprehensive income

The Council has elected to account for the following investments in equity instruments at fair value through other comprehensive income because they are long-term strategic holdings and changes in their fair value are not considered to be part of the Council's annual financial performance.

	Fair Value		Dividends	
	31.03.19	31.03.18	2018/19	2017/18
	£000	£000	£000	£000
CCLA Local Authorities Property Fund	4,962	4,014	54	43
Investec Diversified Income Fund	1,631	1,645	11	11
UBS Multi Asset Income Fund	1,625	1,646	20	15
M&G Global Dividend Fund	1,826	1,683	28	19
M&G Optimal Income Fund	1,662	1,708	4	21
Threadneedle Strategic Bond Fund	1,688	1,620		
Threadneedle Global Equity Income Fund	1,658	1,673	19	4
CCLA - Diversified Income Fund	1,695	1,643	13	13
Total	16,747	15,632	150	127

Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

	Financial Liabilities	Financial Assets			2018/19 Total	2017/18 Total
	Amortised Cost	Amortised Cost	Elected to Fair Value through OCI	Fair Value through Profit & Loss	£'000	£'000
	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	135				135	140
Impairment Loss		4			4	7
Interest payable and similar charges	135	4	0	0	139	147
Interest income		(96)			(96)	(327)
Dividend income			(619)	(172)	(791)	(512)
Gains on de-recognition						(72)
Gains from changes in fair value				16	16	50
Impairment loss reversals		(1)			(1)	
Interest and investment income	0	(97)	(619)	(156)	(872)	(861)
Net impact on surplus/deficit on provision of services	135	(93)	(619)	(156)	(733)	(714)
Gains on revaluation			(263)		(263)	(90)
Losses on revaluation			98		98	362
Impact on other comprehensive income	0	0	(165)	0	(165)	(272)
Net (Gain)/Loss for the Year	135	(93)	(784)	(156)	(898)	(442)

Financial Instruments - Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price

Financial instruments classified at amortised cost 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 2019, using the following methods and assumptions:

- 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 given the low and stable interest rate environment.

Fair values are shown below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

Financial Liabilities

The fair value of short-term financial liabilities held at amortised cost, including short term borrowing and trade payables, is assumed to approximate to the carrying amount. The valuations are deemed as level 2 in the fair value hierarchy.

Financial assets

For financial assets the balance sheet figure is 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. The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

Category	IFRS9	Fair value level	31.03.2019 £000	31.03.2018 £000
Pooled funds	Elected FVOCI	1	16,747	15,632
Money market funds	FVPL	1	13,374	14,189

(E) Financial Instruments - Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

- **Credit Risk:** The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.
- **Liquidity Risk:** The possibility that the Council might not have the cash available to make contracted payments on time.
- **Market Risk:** The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

Credit Risk: Treasury Investments

The Council manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £5m is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £2.5m. The Council also sets limits on investments in certain sectors. No more than £12m in total can be invested for a period longer than one year.

The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity

Credit Rating	31.03.2019		31.03.2018	
	Long-term £000	Short-term £000	Long-term £000	Short-term £000
AAA				1,780
A-		1,978		
BBB+				747
Unrated local authorities		4,000	2,000	3,011
Total	0	5,978	2,000	5,538

Loss allowances on treasury investments would be calculated by reference to historic default data published by credit rating agencies, adjusted for any extraordinary economic conditions. There is no material loss allowance applicable to treasury investments.

Credit Risk: Trade and Lease Receivables

The Council has both trade and lease receivables. The Council's credit risk on lease receivables is to some extent mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

The following analysis summarises the Council's trade and lease receivables, by due date. Only those receivables meeting the definition of a financial asset are included.

£ 000	31.03.2019	31.03.2018
	Trade Receivables	Trade Receivables

Neither past due nor impaired	1,276	742
Past due < 3 months	549	797
Past due 3-6 months	117	33
Past due 6-12 months	145	93
Past due 12+ months	253	235
TOTAL RECEIVABLES	2,340	1,900

Loss allowances on trade receivables, which includes property lease income, have been calculated by reference to the Council's historic experience of default with reference to debtor type and past due status.

Receivables are written off to the Surplus or Deficit on the Provision of Services when they are deemed effectively irrecoverable, but steps are still taken to collect sums owing when the Council has reasonable evidence that the affected counterparty's financial position has changed.

Credit Risk: Loans, Financial Guarantees and Loan Commitments

In furtherance of the Council's service objectives, it has lent money to Henfield Leisure centre.

The amounts recognised on the balance sheet, and the Council's total exposure to credit risk from these instruments are:

Borrower	Exposure type	Balance Sheet	Risk exposure	Balance Sheet	Risk exposure
		31.03.2019 £'000s	31.03.2019 £'000s	31.03.2018 £'000s	31.03.2018 £'000s
Henfield leisure centre	Loans at market rates	241	241	275	275

The Council manages the credit risk inherent in its loans for service purposes, in line with its published Investment Strategy.

Loss allowances on loans for service purposes have been assessed with reference to expected failures of comparable organisations. They are determined to have suffered a significant increase in credit risk where there is significant increased risk that the business model of the organisation may not be able to sustain interest payments and they are determined to be credit-impaired where there it is deemed probable the organisation's business model is not sustainable. Loans are written off to the Surplus or Deficit on the Provision of Services when they are deemed irrecoverable, but steps are still taken to collect sums owing when it is judged that the borrower still has the potential to repay.

Liquidity Risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments

Market Risks: Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in 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 liabilities will fall
- investments at variable rates – the interest income will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement. 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 measured at fair value will be reflected in Other Comprehensive Income or the Surplus or Deficit on the Provision of Services as appropriate.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. To gauge the sensitivity of the Council to interest rate changes if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	31.03.2019 £000	31.03.2018 £000
Increase in interest receivable on variable rate investments	(99)	(178)
Decrease in fair value of investments held at FVPL	67	89
Impact on Surplus or Deficit on the Provision of Services	(32)	(89)
Decrease in fair value of investments held at FVOCI	162	163
Impact on Comprehensive Income and Expenditure	130	74

Decrease in fair value of loans and investments at amortised cost *	12	31
Decrease in fair value of fixed rate borrowing *	0	(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 Risks: 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 price 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 investments of £5m. A 5% fall in commercial property prices at 31 March 2019 would result in a £0.26m (2018: £0.20m) charge to Other Comprehensive Income and Expenditure.

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 that include equity investments of £12m. A 5% fall in share prices at 31 March 2019 would result in a £0.25m (2018: £0.25m) charge to Other Comprehensive Income and Expenditure.

Transition to IFRS 9 Financial Instruments

The Council adopted the IFRS 9 Financial Instruments accounting standard 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 has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the transition is instead shown as an additional line in the Movement in Reserves Statement. The changes made on transition to the balance sheet are summarised below:

	IAS 39 31.03.18	Reclassification	Impairment	IFRS 9 01.04.18
FINANCIAL ASSETS				
Investments				
L&R /Amortised cost	6,814			6,814
Available for sale / FVOCI	25,015	(9,382)		15,632
FVPL	0	9,382		9,382
Total investments	31,829			31,829
Debtors				
L&R /Amortised cost	4,071		(7)	4,064
Total debtors	4,071		(7)	4,064
Cash & cash equivalents				
L&R /Amortised cost	5,537	(5,000)		537
Available for sale / FVOCI		5,000		5,000
Total cash & equivalents	5,537			5,537
TOTAL FINANCIAL ASSETS	41,437		(7)	41,430
FINANCIAL LIABILITIES				
Borrowing				
Amortised cost	(4,000)			(4,000)
Creditors				
Amortised cost	(14,272)			(14,272)
TOTAL FINANCIAL LIABILITIES	(18,272)			(18,272)
NET FINANCIAL ASSETS	23,165	0	(7)	23,158
	IAS 39 31.03.18	Reclassification	Impairment	IFRS 9 01.04.18
RESERVES				
Unusable Reserves				
Available for sale reserve	295	(295)		(0)
Capital adjustment account	(88,646)		7	(88,639)
FI revaluation reserve		278		278
Pooled fund adj account		18		18
Total unusable reserves	(88,351)		7	(88,344)
TOTAL RESERVES	(88,351)	0	7	(88,344)

15 CASH AND CASH EQUIVALENTS

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

	31.03.2019	31.03.2018
	£000	£000
Cash held by Council	7	6
Money market Funds	4,003	5,000
Short-term deposits	1,978	747
Cash in transit	(691)	(216)
Total Cash and Cash Equivalents	<u>5,297</u>	<u>5,537</u>

16 SHORT-TERM DEBTORS

	31.03.2019	31.03.2018
	£000	£000
Sundry Debtors	3,333	4,097
Central government bodies	949	966
Payments in advance	451	382
Council Tax debtors	403	438
NNDR Debtors	1,028	776
Housing benefit overpayments	2,740	2,981
Other local authorities	0	24
	<u>8,904</u>	<u>9,664</u>
Allowance for doubtful debts	(2,965)	(2,945)
	<u>5,939</u>	<u>6,719</u>

17 SHORT-TERM CREDITORS

	31.03.2019	31.03.2018
	£000	£000
Sundry Creditors	(4,581)	(5,747)
Prepayment of NNDR	(902)	(1,000)
Prepayment of Council Tax	(275)	(269)
WSCC Council Tax creditors	(2,494)	(3,158)
SPA Council Tax creditors	(314)	(387)
Central Government – Grants, Reliefs and Levy	(402)	(1,464)
Central Government - NNDR creditors	(2,253)	(1,903)
WSCC NNDR Creditors	(451)	(416)
Total	<u>(11,672)</u>	<u>(14,344)</u>

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 2017	(2,128)	(233)	(148)	(2,509)
Additional provisions made in 2017/18	(598)	(71)	(7)	(676)
Amounts used in 2017/18	882	233		1,115
Unused amounts reversed in 2017/18	0	0	0	0
Balance at 31 March 2018	<u>(1,844)</u>	<u>(71)</u>	<u>(155)</u>	<u>(2,070)</u>
Additional provisions made in 2018/19	(825)	0	(6)	(831)
Amounts used in 2018/19	177	71	0	248
Unused amounts reversed in 2018/19	0	0	0	0
Balance at 31 March 2019	<u>(2,492)</u>	<u>0</u>	<u>(161)</u>	<u>(2,653)</u>

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.

Other long term liabilities:

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	
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	£000	£000	£000	£000
Opening balance	(10,071)	(7,308)	(15,659)	(11,560)
Grants/Contributions in	(3,744)	(2,804)	(815)	(5,010)
Grants/Contributions out	5,078	41	2,437	911
Closing balance	(8,737)	(10,071)	(14,037)	(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 2018/19

Useable Revenue Reserves	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	Income / Expenditure 2018/19 £000	Transfer to / from other reserves 2018/19 £000	Balance at 31.03.19 £000
General Fund Balance	(9,480)	(6,278)	4,100	(11,658)	(7,976)	5,405	(14,229)
New Homes Reserve	(4,933)	0	885	(4,048)	0	30	(4,018)
NHB - BBH Leisure Centre	(1,383)	5,001	(5,000)	(1,382)	5,894	(4,827)	(314)
Health and Wellbeing	(177)	0	(20)	(197)	0	(13)	(210)
Council tax localism	(293)	0	0	(293)	0	0	(293)
Neighbourhood Planning Grant	(278)	0	0	(278)	0	0	(278)
s106 Reserves	(1,184)	432	0	(752)	0	166	(586)
NNDR Provision	(1,435)	0	0	(1,435)	0	0	(1,435)
Homelessness Prevention	0	0	0	0	0	(82)	(82)
Revenues & Benefits	0	0	0	0	0	(318)	(318)
Transformation fund	(113)	0	19	(94)	0	(261)	(355)
Other	(718)	(84)	16	(786)	0	(100)	(885)
Other Earmarked Reserves	(10,514)	5,350	(4,100)	(9,264)	5,894	(5,405)	(8,774)
Sub-total	(19,994)			(20,923)			(23,003)
Useable Capital Reserves							
Capital Receipts Reserve	(5,282)	4,249		(1,033)	(294)		(1,327)
Capital Grants unapplied	(5,281)	(1,171)		(6,452)	(2,694)		(9,145)
Total Useable Revenue Reserves	(30,557)			(28,408)			(33,475)

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.

	31.03.2019	31.03.2018
	£000	£000
Balance at 1 April	(33,517)	(29,298)
(Upward)/downward revaluation of assets	(5,329)	(6,767)
Downward revaluation of assets and impairment losses not charged to the Surplus/deficit on the Provision of Services	3,778	1,911
Difference between fair value depreciation and historical cost depreciation	551	520
Amount written off to the Capital Adjustment Account	0	117
Balance at 31 March	<u>(34,517)</u>	<u>(33,517)</u>

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.

	2018/19	2017/18
	£000	£000
Balance at 1 April	(10,314)	(2,045)
Actuarial gains or losses on pensions assets and liabilities	5,821	(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	4,318	4,467
Employers pensions contributions and direct payments to pensioners payable in the year	(2,482)	(2,690)
Balance at 31 March	<u>(2,657)</u>	<u>(10,314)</u>

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.

	2018/19 £000	2017/18 £000
Balance at 1 April	(88,638)	(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	2,396	2,003
- Revaluation gains / losses on Property, Plant and Equipment	7,026	4,939
- Depreciation of intangible assets	3	3
- Revenue expenditure funded from capital under statute	1,941	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	0	484
Movements in the market value of Investment Property	(3,766)	1,081
Adjusting amounts written out of the Revaluation Reserve	(551)	(637)
write out prior year unfinanced capital expenditure derecognised		15
Service loan principal reversing previous year's financing	53	
Service loan movement in expected credit losses	(1)	
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	(984)	(5,968)
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(3,462)	(1,518)
- Application of grants to capital financing from the Capital Grants Unapplied Account	(108)	(170)
Statutory provision for the financing of capital investment charged against the General Fund	(870)	(924)
Use of general revenue reserves for the financing of capital investment	(6,418)	(5,193)
Balance at 31 March	(93,379)	(88,645)

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.

	2018/19 £000	2017/18 £000
Balance at 1 April - Council Tax	(369)	(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	108	16
Balance at 31 March	(261)	(369)
Balance at 1 April – NNDR	815	(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	279	851
Balance at 31 March	1,094	815
Total	833	446

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

	2018/19 £000	2017/18 £000
Depreciation and Impairments	(2,399)	(2,006)
Impairments	(3,260)	(6,019)
Pensions Liability	(1,836)	(1,777)
(Increase)/decrease in debtors	(878)	561

(Increase)/decrease in creditors	8,017	1,866
Movement in provisions	(399)	(893)
Movement in Reserves	0	97
(Increase)/decrease in inventories	16	33
Other non-cash adjustments	(149)	449
Total	(888)	(7,689)

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

	2018/19	2017/18
	£000	£000
Capital grants credited to the surplus or deficit on the provision of services	6,264	2,757
Proceeds from the sale of non-current assets	1,225	1,241
Council Tax and NDR adjustment	180	180
Total	7,669	4,178

c) Interest received, interest paid and dividends received

	2018/19	2017/18
	£000	£000
Interest received	(882)	(960)
Interest paid	135	139
Total	(747)	(821)

22 EXTERNAL AUDIT COSTS

	2018/19	2017/18
	£000	£000
Fees payable with regard to external audit services carried out by the appointed auditors for the year	39	50
Fees payable for the certification of grant claims and returns for the year	11	12
Fees payable in respect of other services relating to previous year	8	0
Total	58	62

The costs for the 2018/19 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.

Fees payable in respect of other services relate to additional work on the 2017/18 main audit and Pension Fund, only recently agreed by Public Sector Audit Appointments.

23 MEMBERS ALLOWANCES

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

	2018/19	2017/18
	£000	£000
Attendance Allowances	321	326
Expenses	24	18
Total	345	344

24 LEASES

**Operating Leases
Council as a Lessee**

The Council leases its main office and a small number of vehicles with charge of £0.24m

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	
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	£000	£000	£000	£000
Not later than one year	2,765	2,911	242	230
Later than one year and not later than five years	7,813	7,848	956	920
Later than five years	8,656	9,440	268	498
	234	20,199	1,466	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 £0.22m in 2018/19 (£0.28m in 2017/18).

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
2018/19	£	£	£	
Chief Executive	112,967	23,516	136,483	a
Director of Community Services	92,563	18,820	111,383	b
Director of Corporate Resources (Section 151 Officer)	95,959	19,516	115,475	a
Director of Place	76,055	15,493	91,548	c
Head of Legal and Democratic Services (Monitoring Officer)	67,214	13,779	80,993	d
2017/18	£	£	£	
Chief Executive	125,460	23,217	148,677	a
Director of Community Services	73,340	14,954	88,294	b
Director of Corporate Resources (Section 151 Officer)	96,306	19,133	115,439	a
Director of Place	92,694	19,133	111,827	
Head of Legal and Democratic Services (Monitoring Officer)	17,386	3,776	21,162	d

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:

- 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 2018/19 amount paid, as there was a general election in June 2017. Following the retirement of the previous Chief Executive, the new Chief Executive started on 10 April 2018.
- In 2017/18, the previous Director of Community Services left post in June 2017 and the current Director did not start until September 2017, so 2017/18 comparator does not include a full year of costs.
- In 2018/19, the previous Director of Place left post in June 2018 and the current Director of Place started in post on 28 August 2018, so 2018/19 does not include a full year of costs.
- In 2017/18, the previous 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 current Head of Legal and Democratic Services post did not start until 9 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 salary expenditure totals as this was paid through creditors as the monitoring officer was not an employee of the Council.

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 2018/19	Number of Employees 2017/18
£50,000 - £54,999	4	6
£55,000 - £59,999	7	9
£60,000 - £64,999	2	1
£65,000 - £69,999	3	1
£70,000 - £74,999	0	1
£75,000 - £79,999	1	1
£80,000 - £84,999	0	0
£85,000 - £89,999	0	0

£90,000 - £94,999	1	1
£95,000 - £99,999	1	1
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000 - £114,999	1	0
£115,000 - £119,999	0	0
£120,000 - £124,999	0	0
£125,000 - £129,999	0	1
Total number	20	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		Total number of exit packages by exit band		Total cost of exit packages in each band	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19 £000	2017/18 £000
£0 - £20,000	3	3	6	2	9	5	51	36
£20,001 - £40,000	2	4	0	0	2	4	62	124
£40,001 - £60,000	0	1	0	0	0	1	0	59
£60,001 - £80,000	0	2	0	0	0	2	0	149
£80,001 - £100,000	0	1	0	0	0	1	0	81
£100,001 - £150,000	1	0	0	0	1	0	105	0
Total	6	11	6	2	12	13	218	449
Provision	0	2	0	0	0	2	0	71
Total	6	13	6	2	12	15	218	520

27 TERMINATION BENEFITS

During 2018/19 the Council terminated 12 posts at a total cost of £218k which was made up of redundancy payments of £118k and other termination costs of £100k.

The Council's share of redundancy for two officers from Census Revenues and Benefits (hosted by Mid Sussex) are included in the figures in 2018/19. This share is set at 50% of the redundancy costs and totals £62k for two officers.

The Council employed the Director of the Rural West Sussex Partnership who was made redundant during 2018/19. The table includes the gross cost of £10k but Horsham District Council received contributions from the other Rural West Sussex partners of £9k, resulting in a net cost of £1k.

In 2017/18, the statement included a provision of £71k, relating to two Council officers. The actual costs for these two officers are not included again in the 2018/19 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 2019 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 2018/19 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 2018/19.

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 2018/19 amounted to £329k (£309k in 2017/18) and £66k (£52k in 2017/18) was outstanding as at 31 March 2019.

29 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the 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.

	2018/19	2017/18
	£000	£000
Opening Capital Financing Requirement	30,388	15,992
Capital Investment		
Property, Plant & Equipment	12,130	14,839
Investment Properties	541	12,300
Intangible Assets	24	0
Revenue Expenditure Funded from Capital Under Statute	1,941	1,098
Sources of finance		
Capital receipts	(984)	(5,968)
Government grants and other contributions	(3,571)	(1,688)
Direct revenue contributions	(6,418)	(5,194)
Minimum Revenue Provision	(870)	(924)
write out prior year unfinanced capital expenditure derecognised	0	(67)
Closing Capital Financing Requirement	33,181	30,388
Explanation of movements in year		
Increase in underlying need to borrowing	3,663	15,387
Minimum Revenue Provision	(870)	(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	2,793	14,397

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 2018/19 these amounted to £98k (£101k in 2017/18) representing 1% of pensionable pay (1% in 2017/18).

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.

At 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>	2018/19	2017/18
	£000	£000
<u>Cost of Services</u>		
- current service cost	(4,568)	(4,688)
- past service costs	0	(342)
- effect of settlements	0	(1,534)
Total Service Cost	(4,568)	(6,564)
<u>Financing and Investment Income and Expenditure</u>		
Interest income on planned assets	4,543	4,225
Interest cost on defined benefit obligation	(4,293)	(4,212)
Total Net Interest	250	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	(4,318)	(4,467)
<u>Re-measurements of the Net Defined Liability</u>		
Actuarial gains arising from changes in demographic assumptions	0	0
Actuarial gains / (losses) arising from changes in financial assumptions	(12,094)	2,734
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	43	94
Return on assets excluding amounts included in net interest	6,231	7,217
Total re-measurements recognised in other comprehensive income	(5,820)	10,045
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(10,138)	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	(4,318)	(4,467)
Actual amounts charged to the General fund balance for pensions in the year		
Employers contributions payable to the scheme	(2,482)	(2,690)

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	2018/19	2017/18
	£000	£000
Present value of liabilities - Funded	(174,284)	(157,145)

Present value of liabilities - Un funded	(1,520)	(1,600)
Fair value of plan assets	178,465	169,058
Net asset (liability) arising from defined benefit obligation	2,657	10,313

The surplus on the balance sheet reduced in 2018/19. This is a result of Corporate bonds yields being lower, which serves to increase the value placed on the obligations. The effect of this is partially offset by investment returns being greater than the 31 March 2018 discount rate. The balance sheet position for a 'typical' LGPS employer is likely to have worsened as a result.

Funded Liabilities - LGPS	2018/19	2017/18	2017/18	2017/18
		Census new	Census old	HDC
	£000	£000	£000	£000
Reconciliation of present value of the scheme liabilities:				
Balance at 1 April	(158,745)	0	(7,747)	(155,199)
Adjustment to Census partnership	0	204	(118)	0
Current service cost	(4,568)	(127)	(114)	(4,447)
Interest cost	(4,293)	(56)	(84)	(4,072)
Contributions by scheme participants	(794)	(21)	(22)	(751)
Actuarial gains and losses	(12,051)	0	38	2,791
Benefits paid	4,643	(0)	39	4,461
Past service costs	0		(64)	(278)
Liabilities distributed on settlements	0	0	8,072	0
Liabilities assumed in a business combination	0	0	0	(1,250)
Balance at 31 March	(175,808)	0	0	(158,745)
Reconciliation of fair value of the scheme assets:				
Balance at 1 April	169,058	0	8,153	156,838
Adjustment to Census partnership	0	(205)	101	0
Interest income on planned assets	4,543	47	91	4,087
Return on planned assets (excluding amounts in net interest)	6,231	(24)	226	7,015
Employer contributions	2,482	64	93	2,533
Contributions by scheme participants	794	21	22	751
Benefits paid	(4,643)	0	(39)	(4,461)
Assets distributed on settlements	0	96	(8,646)	(1,039)
Assets acquired in a business combination	0	0	0	3,334
Balance at 31 March	178,465	0	0	169,058

LGPS Assets comprised:

	2019		2018	
	£000	% of assets	£000	% of assets
Equity Securities:				
Consumer	17,384.3	9.7%	24,050.60	14.2%
Manufacturing	10,256.6	5.7%	15,452.00	9.1%
Energy & Utilities	5,433.1	3.0%	8,164.40	4.8%
Financial Institutions	21,411.6	12.0%	27,535.60	16.3%
Health & Care	8,589.2	4.8%	11,713.70	6.9%
Information Technology	11,556.4	6.5%	23,102.20	13.7%
Other	10,197.3	5.7%	7,789.00	4.6%
Debt Securities:				
UK Government	5,064.0	2.8%	3,134.80	1.9%
Private Equity:				
All	4,958.1	2.8%	7,267.60	4.3%

Real Estate:

UK Property	16,615.2	9.3%	13,332.10	7.9%
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Investment Funds & Unit**Trusts:**

Bonds	60,175.6	33.7%	21,183.50	12.5%
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Other	1,904.5	1.1%	1,981.60	1.2%
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Cash & cash Equivalents: All	4,919.1	2.8%	4,350.90	2.6%
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	178,465	100%	169,058	100%
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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 £2.7m (£10.3m surplus at 31 March 2018) which has an impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £162.9m.

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 2019 is £2.34m (£2.2m at 31 March 2018).

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>2018/19</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		2.5%	2.4%
Rate of increase in salaries		3.2%	3.1%
Rate of discounting scheme liabilities		2.4%	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 legal ruling has been made regarding age discrimination arising from pension scheme transitions arrangements. Court of appeal judgements were made in cases affecting judges pensions (McCloud) and firefighter pensions (Sergeant) which had previously been considered by employment tribunals. The ruling may have implications for other pension schemes, including the LGPS, which have implemented transitional arrangements for benefits changes. The LGPS scheme advisory board have commissioned the Government Actuary's Department to prepare an assessment of the potential impact. This assessment will set out the potential impact on scheme liabilities (expressed as a percentage of active liabilities) and service cost (expressed as a percentage of pensionable pay). The potential impact on the West Sussex LGPS is currently unknown.

In 2017/18 the Census Revenues and Benefits Partnership, hosted by Mid Sussex ended. The break up incurred costs, including cost of redundancies. Mid Sussex has yet to provide information that supports all the redundancies relating to staff that were categorised by MSDC as Horsham District Council 'based'. The Council has therefore reserved its position on these costs.

COLLECTION FUND

2018-19			2017-18		
Business Rates	Council Tax	Total	Business Rates	Council Tax	Total
£000	£000	£000	£000	£000	£000
			INCOME		
0	(103,806)	(103,806)	0	(97,167)	(97,167)
(43,359)	0	(43,359)	(39,527)	0	(39,527)
			Transfers from General Fund		
0	(1)	(1)	0	(1)	(1)
(839)	0	(839)	(668)	0	(668)
<u>(44,198)</u>	<u>(103,807)</u>	<u>(148,006)</u>	<u>(40,195)</u>	<u>(97,168)</u>	<u>(137,363)</u>
			Total Income		
			EXPENDITURE		
			Apportionment of Previous Year Surplus / (Deficit)		
(129)	212	82	280	182	462
(32)	1,370	1,338	70	1,173	1,243
0	168	168		145	145
(162)	0	(162)	350		350
<u>(323)</u>	<u>1,750</u>	<u>1,427</u>	<u>700</u>	<u>1,500</u>	<u>2,200</u>
			Precepts, Demands and Shares		
17,070	12,368	29,438	16,817	11,555	28,372
4,268	80,182	84,450	4,204	74,871	79,075
0	10,095	10,095		9,178	9,178
<u>21,338</u>	<u>0</u>	<u>21,338</u>	<u>21,021</u>	<u>0</u>	<u>21,021</u>
42,675	102,645	145,321	42,043	95,604	137,646
			Charges to Collection Fund		
441	310	751	667	389	1,056
303	(1)	302	(555)	(201)	(756)
1,621	0	1,621	(708)	0	(708)
<u>180</u>	<u>0</u>	<u>180</u>	<u>180</u>	<u>0</u>	<u>180</u>
<u>2,544</u>	<u>309</u>	<u>2,853</u>	<u>(417)</u>	<u>188</u>	<u>(229)</u>
44,896	104,704	149,601	42,326	97,291	139,617
698	897	1,595	2,131	123	2,254
<u>2,041</u>	<u>(3,042)</u>	<u>(1,001)</u>	<u>(90)</u>	<u>(3,166)</u>	<u>(3,256)</u>
2,739	(2,145)	594	2,041	(3,042)	(1,001)
			(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	935
B	40,001-52,000	7/9	3,143
C	52,001-68,000	8/9	9,370
D	68,001-88,000	1	11,769
E	88,001-120,000	11/9	12,153
F	120,001-160,000	13/9	10,862
G	160,001-320,000	15/9	11,888
H	over 320,000	2	1,487
COUNCIL TAX BASE			61,608

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 2019 was £112.064m and the standard National Non-Domestic Rate multiplier for the year was £0.493

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 2019			
£000			
Accumulated (Surplus) / deficit at 31 March 2019		594	
Apportionment based on 2018/19 precepts and demands:			
Deficit / (surplus)			
	<u>Business</u>	<u>Council</u>	
	<u>Rates</u>	<u>Tax</u>	Total
	£000	£000	£000
Horsham District Council	1,096	(258)	837
West Sussex County Council	274	(1,676)	(1,402)
Sussex Police Authority	-	(211)	(211)
Central Government	1,370	-	1,370
	2,740	(2,146)	594

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.
CIL (COMMUNITY INFRASTRUCTURE LEVY)	Contribution paid by developers to Local Planning Authorities to help deliver infrastructure to support the development of the area.
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 (NNDR)	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 (PWLb)	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.

Report to Audit Committee

11 July 2019

By the Director of Corporate Resources



**Horsham
District
Council**

INFORMATION REPORT

Not Exempt

Internal Audit reviews of Revenues and Benefits 2018/19

Executive Summary

This report tells Councillors the outcome of the internal audit reports of Revenues and Benefits completed by LGSS internal audit as part of the agreement in which LGSS manage Horsham District Council's Revenues and Benefits service. All three audits, completed in the fourth quarter of 2018/19, achieved substantial assurance for the control environment. The Benefits audit showed substantial assurance for compliance and the two Revenues audits good assurance for compliance.

Recommendations

The Committee is recommended to:

- Note the report and consider any further action required in response to the issues raised.

Reasons for Recommendations

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

Background Papers

None

Wards affected: All.

Report Author: Jane Eaton, Director of Corporate Resources

Contact Details: Jane Eaton, Director of Corporate Resources
Paul Miller, Horsham Chief Internal Auditor

Tel No. 01403 215300

Tel No. 01403 215319

Background Information

1 Introduction and Background

- 1.1 The Northamptonshire based local authority partnership called LGSS started providing Horsham District Council's Revenues and Benefits service in April 2018. This service includes the internal audit of these services.
- 1.2 LGSS internal audit completed the audits of Council Tax, Housing Benefits and Business Rates during the fourth quarter of 2018/19.
- 1.3 LGSS internal audit gave their opinion of the adequacy of the system and the compliance of the service with the system.

2 Relevant Policy / Professional Standards

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

3 Conclusion and Reasons for Recommendation

- 3.1 Key audit findings from final reports are summarised in Appendix A.
- 3.2 LGSS internal audit finalised all three of the Revenues and Benefit audits during quarter four. The two Revenues audits received substantial assurance for the control environment and good assurance for compliance. The Benefits audit received substantial assurance for the control environment and compliance. Management of the Revenues and Benefits Service confirmed they had implemented all recommendations by the end of June.

4 Next Steps

- 4.1 The next internal audit reviews of Council Tax, Business Rates and Benefits will take place in 2019/20.

5 Outcome of Consultations

- 5.1 LGSS Internal Audit consulted Horsham District's Head of Revenues and Benefits, the Operations Manager for and LGSS's specialist officers at the start and throughout the review, including discussion and agreement of recommendations. The Director of Corporate Resources agreed the outline, draft and final reports.

6 Other Courses of Action Considered but Rejected

- 6.1 Not applicable.

7 Resource Consequences

- 7.1 Horsham District Council pays for these audits as part of its fee to LGSS for the Revenues and Benefits service. There are no resource consequences arising from this report.

8 Legal Consequences

8.1 There are no legal consequences.

9 Risk Assessment

9.1 LGSS Internal Audit use risk based approach when carrying out their audit and in evaluating the importance of their finding and recommendations.

10 Other Considerations

10.1 There are no consequences in respect of Crime & Disorder; Human Rights; Equality & Diversity; or Sustainability as a result of this report or the audit reports.

Summary of the main findings from the audits completed by LGSS internal audit in quarter four

Council Tax Audit

Based on the completion of their fieldwork LGSS internal audit gave substantial assurance for the control environment covering Council Tax and good assurance for compliance.

The level of assurance reflects their findings:

- 1) Council Tax was found to be a well-controlled system. Identification and monitoring of new and amended properties is well-managed with the use of new address reports, inspection visits and planning information.
- 2) The process for Council Tax billing was found to be timely with good controls in place within the Academy system ensuring accuracy.
- 3) Council Tax discounts and exemptions were found to have been awarded correctly with entitlement verification procedures in place. However a regular review strategy for Council Tax discounts and exemptions is not currently in place.
- 4) Refunds and write-off transactions are signed off with the appropriate authorisation and with due regard to segregation of duties.
- 5) Recovery and enforcement action is well monitored with processes in place to provide an overview of late payments. Debt recovery action is prompt and effective.
- 6) There is currently a backlog in the process of regular monthly cash and refund reconciliations leaving gaps in the evidence of management accountability.
- 7) System parameters are appropriately maintained requiring secure audited access commensurate with grade and business requirements.

Main Recommendations by Internal Audit and the Management Response

- 1) Recommendation: A process should be introduced to ensure that a monthly control sheet for cash and refund reconciliations is completed as from the June 2019 reconciliation. The Revenues & Benefits Team Leader should then verify the reconciliation each month.

Response: Horsham District's Revenues and Benefits Operations Manager confirmed the Revenues and Benefits systems team put a process in place to ensure that a monthly control sheet for cash and refund reconciliations were completed from June 2019 and the Team Leader started verifying this monthly from June.

- 2) Recommendation: An annual review strategy for Council Tax discounts and exemptions should be introduced allowing revaluation of customer eligibility on regular basis.

Response: LGSS will commence a full review of all 'Single Person Discounts' for Horsham District Council later in 2019. This will be an extensive review and will be conducted with the support of externally provided credit reference data. LGSS are currently in the process of procuring the services of a credit data company to support this review.

The Revenues and Benefits Operations Manager has introduced a calendar of reviews for Council Tax discount/exemptions for 2019. The reviews have been scheduled around the annual peaks and troughs of customer demand.

Benefits Audit

Based on the completion of our fieldwork LGSS internal audit gave a substantial assurance opinion for both the control environment covering the management of Benefits and for compliance.

The level of assurance reflects their findings:

- 1) Working practices were found to be compliant with legislation with information detailing policies and procedures disseminated to staff.
- 2) New claims had been processed under newly introduced Risk Assessment and Quality Assurance (QA) Processes.
- 3) Housing Benefit claims were compliant with published Local Housing Allowance (LHA) rates with good rationale detailing higher rates paid to a small number of exceptions.
- 4) Benefit claim changes of circumstances had been actioned in line with regulations, procedures and within target times.
- 5) Backdated benefit claims were found to be correctly authorised and paid in accordance with DWP regulations and had evidence supporting the payment.
- 6) Regular checks and reconciliations were being carried out to verify and monitor payments made.
- 7) Action taken to recover overpaid benefit payments was prompt and well documented with system processes in place to minimise loss.
- 8) Access to the Benefits systems were securely controlled with key parameters restricted to senior level.
- 9) Procedures were in place to report suspected cases of benefit fraud.

There were no recommendations arising from this internal audit.

Business Rates audit

Based on the completion of their fieldwork LGSS internal audit gave substantial assurance for the control environment covering business rates and good assurance for compliance.

The level of assurance reflects their findings:

- 1) Control over identification and monitoring of commercial properties at the planning/construction stage is well managed.
- 2) The process for NNDR billing was found to be timely with good controls in place within the Academy system ensuring accuracy.

- 3) NNDR reliefs are awarded correctly with effective entitlement verification procedures in place. Reviews of entitlement are carried out to verify that ratepayers are still entitled to a relief.
- 4) Refunds and write-offs were found to be appropriate and clearly documented. Transactions are signed off with due regard to separation of duties.
- 5) Recovery and enforcement action is well monitored with good controls in place to provide an overview of late payments. Debt recovery action is prompt and effective.
- 6) The process of regular monthly cash and refund reconciliations is not up to date as the control sheet for 2018/19 has not been fully completed and verified.

Main Recommendations by Internal Audit and the Management Response

- 1) Recommendation: A process should be introduced to ensure that a monthly reconciliation control sheet for cash and refund transactions is completed. The Revenues & Benefits Team Leader should evidence that they have reviewed the reconciliation for accuracy.

Horsham District's Revenues and Benefits Operations Manager confirmed the Revenues and Benefits systems team put a process in place to ensure that a monthly control sheet for cash and refund reconciliations are completed as from the June 2019 reconciliation. The Revenues & Benefits Team Leader should then verify the reconciliation each month.

Report to Audit Committee

11th July 2019

By the Chief Internal Auditor



**Horsham
District
Council**

INFORMATION REPORT

Not Exempt

Internal Audit – Annual Report and Opinion 2018/19

Executive Summary

This report has been compiled to:

- Provide an overall annual opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.
- Provide an update on internal audit and counter fraud activity undertaken during Quarter 4.
- Summarise performance against key indicators.

No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable assurance that Horsham District Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.

Recommendations

- i) To note the annual opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems.
- ii) To note the summary of audit and project work undertaken during Quarter 4.
- iii) To note the performance of internal audit against performance targets.

Reasons for Recommendations

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

Background Papers: Internal Audit Reports and Quality Assurance Self-Assessment.
Consultation: N/A
Wards affected: All
Contact: Paul Miller, Chief Internal Auditor, Ext 5319

Background Information

1. Introduction and Background

1.1 Annual Report and Opinion

The 2018/19 Internal Audit plan was approved by this committee in April 2018. All reviews were completed by the year end. Our Annual Report is attached as Annexe A.

1.2 Quarter 4 Update

The Audit Committee receives periodic reports on the work carried out by internal audit as part of the Council's governance arrangements. Please see Annexe B for the summary of work undertaken by internal audit during Quarter 4 (1st January to 31st March 2019).

1.3 Staffing

The Horsham Internal Audit plan has been delivered by the Orbis Internal Audit Partnership. All auditors have the requisite experience to effectively fulfil their responsibilities, and all auditors who have undertaken work for Horsham D.C during 2018/19 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 Orbis Internal Audit team.

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 27 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, which is provided by the Orbis Partnership, was externally reviewed by the South West Audit Partnership in 2018. The overall conclusion was that the service had achieved the highest level of conformance.

3.2 The internal audit service has maintained its independence throughout 2018/19 in accordance with the Audit Charter.

4. Next Steps

Not applicable.

5. Outcome of Consultations

Heads of Service / Service managers are consulted during each audit. At the end of each review, audit findings and draft reports are discussed with the Heads of Service at a final meeting, and actions are agreed. An action plan is incorporated into the final report including details of responsible officers and agreed implementation dates. There are occasions when a director may also be consulted, particularly for audits which span a number of departments.

6. Other Courses of Action Considered but Rejected

Not applicable.

7. Resource Consequences

This report summarises information about the work undertaken by Orbis Internal Audit on behalf of Horsham District Council, and therefore there are no direct financial or HR consequences.

8. Legal Consequences

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

9. Risk Assessment

All internal audit work is undertaken using a risk based approach.

10. 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.

INTERNAL AUDIT ANNUAL REPORT & OPINION 2018/2019



Horsham
District
Council

1. Internal Control and the Role of Internal Audit

1.1 All local authorities must make proper provision for internal audit in line with the Accounts and Audit Regulations 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

1.3 Annually the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

2. Delivery of the Internal Audit Plan

2.1 The Council's Internal Audit Strategy and Plan is updated each year based on a combination of management's assessment of risk (including that set out within the departmental and strategic risk registers) and our own risk assessment of the Council's major systems and other auditable areas. The process of producing the plan involves extensive consultation with a range of stakeholders to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered.

2.2 In accordance with the audit plan for 2018/19, a programme of audits was carried out covering a range of Council departments and, in accordance with best practice, this programme was reviewed during the year and revised to reflect changes in risk and priority.

2.3 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to the Audit Committee as part of our periodic internal audit progress reports.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable ¹assurance that Horsham District Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.

3.2 Further information on the basis of this opinion is provided below but in summary, the results of internal audit activities during the year have been generally favourable, albeit with a small number of partial opinions issued. There have been no minimal assurance opinions. The instances of partial assurance opinions are not considered sufficiently significant in terms of overall organisation governance to impact on our reasonable assurance annual audit opinion.

¹ This opinion is based on the activities set out in paragraph 4 below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the Council within a single year.

3.3 Where improvements in controls are required as a result of our work, we have agreed appropriate remedial action with management.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

- All audit work completed during 2018/19, planned and unplanned;
- Follow up of actions from previous audits;
- Management’s response to audit findings;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor at organisational meetings relating to risk, governance and internal control matters;
- Effects of significant changes in the Council’s systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service’s performance.

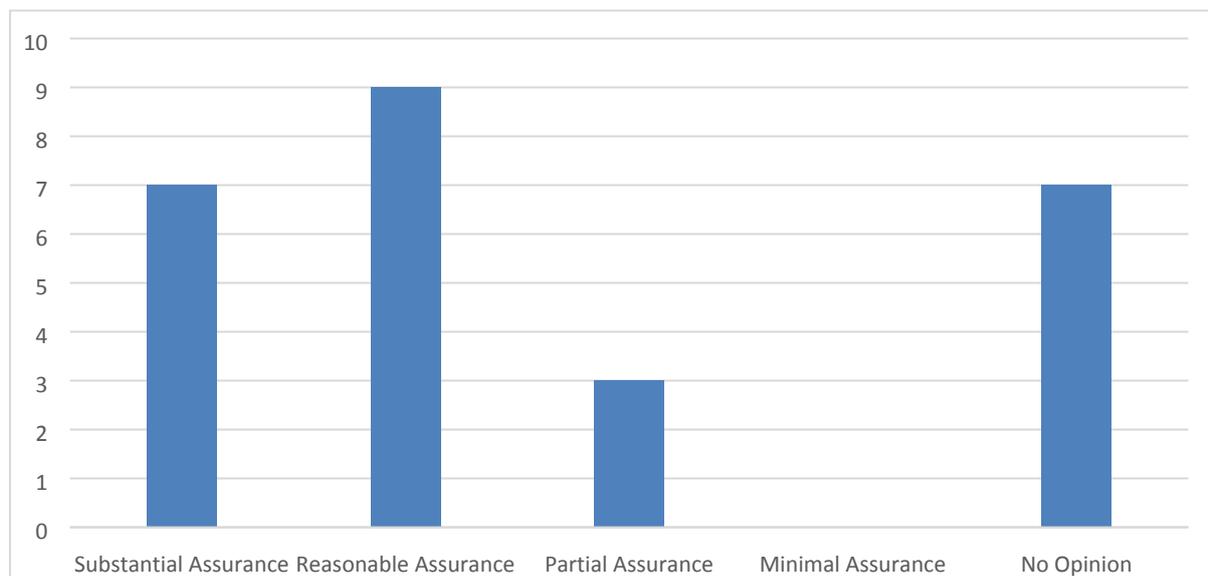
4.2 No limitations have been placed on the scope of internal audit during 2018/19.

5. Key Internal Audit Issues for 2018/19

5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the Council’s Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, and ad hoc advice. The following graph provides a summary of the outcomes from all audits finalised during 2018/19 with standard audit opinions:

Audit Opinions



5.3 A full listing of all completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels. The results of all audit work completed is reported to the Senior Leadership Team (SLT) and Audit Committee throughout the year.

5.4 A total of three audits received partial assurance opinions within the year, as follows:

- Fire Safety
- Contract Management
- Cultural Compliance (Capitol)

5.5 Whilst actions arising from these reviews will be followed up by internal audit, either through specific reviews or via established action tracking arrangements, it is important that management take prompt action to secure the necessary improvements in internal control. As at 31 March 2019, of the 34 high and medium risk agreed actions due by the end of 2018/19, it is pleasing to report that 33 had been implemented within the agreed timescales. The outstanding item is a medium priority action, and it has been agreed that the implementation date be extended to 30th March 2020.

5.6 At the time of producing this report, all audit reviews for 2018/19 (including unplanned reviews) had been completed.

Key Financial Systems

5.7 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council's key financial systems. Of those completed during 2018/19, all have resulted in either substantial or reasonable assurance being provided over the control environment.

Other Internal Audit Activity

5.8 During 2018/19, internal audit has continued to provide advice, support and independent challenge to the organisation on risk, governance and internal control matters across a range of areas. These include:

- Officer Corporate Governance Group.
- Officer Risk Management Group.
- Officer Project Review Group.
- Broadbridge Heath Leisure Centre Project Team.
- Technology One HR & OD Project Team.

Anti-Fraud and Corruption

5.9 The Orbis IA structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality, specialisms and sustain a strong sovereign focus. A key strand of the structure was the formation of a counter fraud team that would deliver specialist fraud resource across the Partnership.

5.10 There was one fraud and corruption allegation that was investigated during 2018/19. This followed a letter of complaint received from a member of the public. However, there was insufficient evidence to substantiate the claim, and therefore the case was closed.

5.11 It is a mandatory requirement that all staff complete the Council’s e-learning training entitled “Fraud Prevention, Anti-Bribery and Corruption”. As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority. Progress over the last 12 months is outlined below:

Priority	Progress to date
Reactive Investigations	The counter fraud team is responsible for assessing and evaluating fraud referrals received by each sovereign partner, and then leading on subsequent investigations. The team have implemented a coordinated approach to assessing and logging referrals and adopted consistent procedures for recording investigations.
National Fraud Initiative (NFI) Exercise	Results from the matching exercise were received in Spring 2019 and work is underway to review, prioritise and investigate flagged matches.
Fraud Risk Assessments	Fraud risk assessments have been consolidated to ensure that the current fraud threat has been considered and mitigating actions identified.
Fraud Response Plans	The Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector and provide a proactive counter fraud programme. These have been reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will form the basis of planned proactive work for 2019/20 and include an increased emphasis on data analytics.

5.12 Whilst it is our opinion that the control environment in relation to fraud and corruption is satisfactory and the incidence of fraud is considered low for an organisation of this size and diversity, we continue to be alert to the risk of fraud. This includes working with local fraud hubs; the aim of which is to deliver a strong and co-ordinated approach to preventing, detecting and responding to fraud.

Amendments to the Audit Plan

5.13 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews were added to the original audit plan during the year:

- Housing Benefits Subsidy – Lessons Learnt.
- Review of bomb / lockdown procedures for Parkside and buildings owned by Horsham D.C.

- Input to the review of the Council's Constitution.
- Review of Housing Company Business Case.
- Review of Information Security Policy Suite.
- Advice and data analytics work to support the implementation of the new Technology One HR system.
- Alternate Weekly Collections post implementation review.

5.14 In order to allow these additional audits to take place, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in future audit plans as part of the overall risk assessment completed during the annual audit planning process. These changes have been made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- Contracts - Procurement
- ICT Service Desk
- General Data Protection Regulations (GDPR)

6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2018/19, including the results of our first independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self-assessment in 2019:

- Purpose, authority and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;
- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.3 The results of the SWAP review and our latest self-assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our quality assurance and improvement plan.

Key Service Targets

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post audit questionnaires, discussions with key stakeholders throughout the year and annual consultation meetings with senior officers.

6.5 Significantly, we have completed 100% of the 2018/19 audit plan, exceeding our target of 90%.

6.6 Internal audit will continue to liaise with the Council's external auditors (Ernst & Young) to ensure that the Council obtains maximum value from the combined audit resources available.

6.7 In addition to this annual summary, the Senior Leadership Team (SLT) and Audit Committee will continue to receive performance information on internal audit throughout the year as part of our quarterly progress reports.

Internal Audit Performance Indicators 2018/19

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 10 April 2019
	Annual Audit Report and Opinion	By end July	G	2017/18 report approved by Committee on 12/07/18
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	100%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	Last independent external assessment awarded highest level of conformance. Confirmed in most recent self assessment
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	97%
Our staff	Professionally Qualified/Accredited	80%	G	87%

Summary of Opinions for Internal Audit Reports Issued During 2018/19

Substantial Assurance:*(Explanation of assurance levels provided at the bottom of this document)*

Audit Title	Department
Cash & Bank	Finance
Accounts Payable	Finance
Payroll	Finance
IR35	Finance
Housing Benefits	LGSS
ICT Incident Management	Technology Services
Cultural Compliance (Events)	Economic Development

Reasonable Assurance:

Audit Title	Department
Treasury Management	Finance
Accounts Receivable	Finance
Council Tax	LGSS
Business Rates	LGSS
Health & Safety	HR & OD
Cyber Security	Technology Services
Performance Management	Corporate Performance
CIL	Development
Parking Enforcement	Parking Services

Partial Assurance:

Audit Title	Department
Contract Management	Corporate Resources
Fire Safety	Property & Facilities
Cultural Compliance (Capitol)	Leisure & Culture

Other Audit Activity Undertaken During 2018/19 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
Housing Benefits Subsidy – Lessons Learnt	Corporate Resources
Review of bomb / lockdown procedures for Parkside and buildings owned by Horsham D.C	Housing & Community
Input to the review of the Council’s Constitution	Legal Services
Review of Housing Company Business Case	Housing & Community
Review of Information Security Policy Suite	Technology Services
Data analytics work to support the implementation of the new Technology One HR system	HR & OD
Post Implementation Review of the Alternative Weekly Collections project.	Waste, Street Scene & Fleet

Audit Opinions and Definitions

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.

Summary of Key Audit Findings for Quarter 4 2018/19

Fire Safety

In conducting this review, we applied the Fire Safety Management Audit model developed by the British Safety Council as the basis for the audit. The purpose of the audit was to provide assurance that controls are in place to meet objectives in a number of areas:

- Fire Safety Policy
- Roles and responsibilities
- Reporting and leadership commitment
- Compliance with legislative requirements
- Levels of competency and training
- Change management
- Risk assessments and responses
- Workplace inspections
- Fire evacuation

Overall, we found a range of control weaknesses and we were only able to provide an opinion of **partial assurance**.

A detailed improvement plan has been agreed with management and the audit report has been reviewed by the Senior Leadership Team who fully support the need to remediate the shortcomings identified.

Improvements have been agreed in the following areas:

- The health and safety reporting framework (which include fire safety) will be re-designed to ensure that significant risks are escalated to relevant heads of service and directors. Improved corporate oversight will ensure that decisions are made at the right level within the organisation.
- Performance indicators will be introduced to improve the visibility of areas of non-compliance (for example, non-completion of checks, or expected controls not being undertaken).
- An external contractor will be engaged to write appropriate fire safety emergency plans for each Council-owned building in consultation with relevant officers.
- The Council's Health and Safety Adviser will undertake research to establish competence criteria for the future appointment of fire risk assessors.
- Fire doors in Swan Walk car park will no longer be locked outside of the Swan Walk Centre operating hours and action has been taken to ensure that all fire doors at this site are self-closing. In addition, emergency exit signage will be improved.
- Fire drills (which were not being undertaken in some locations) will be programmed. The frequency will be determined on a building-by-building basis and will be informed by the fire safety emergency plans / level of risk.
- Specialist advice will be sought to improve fire safety arrangements at Horsham Museum. This is an historic building, and therefore does not lend itself to modern fire safety systems. It has also been agreed that personal evacuation plans will be completed for vulnerable individuals.

- The frequency of fixed wire testing for Council-owned buildings will be reviewed with more frequent checks being undertaken at some sites, bringing them into line with the requirements detailed in *British Standard BS7671 IET Wiring Regulations 18th Edition: 2018 (Guidance Note 3)*.

A follow-up audit will be undertaken later in 2019/20.

Cultural Compliance – The Capitol

The Capitol provides a wide range of both live productions and cinema screenings. Its annual pantomime is extremely popular enabling local families to enjoy this traditional Christmas entertainment close to home.

This Cultural Compliance audit was undertaken to review the departmental arrangements for compliance with the Council's Corporate Governance arrangements.

The purpose of this review was to ensure that:

- Management has put in place appropriate arrangements for monitoring delivery of the service and assessing its performance and effectiveness;
- There is an adequate budget setting and monitoring process in place and that appropriate measures are taken in a timely manner to address budget pressures;
- Expenditure is only incurred for legitimate Council business and is in line with the relevant procurement process;
- Where chargeable services are delivered, appropriate prices are set and regularly reviewed and that all income attributable to the work undertaken by the service is invoiced correctly;
- There is effective staff supervision and performance management including administration of staff development and well-being in accordance with the Council's procedures;
- Assets purchased for the Council are held securely and appropriately managed.

Overall, we found a number of areas of non-compliance with the Council's governance processes, including approval processes; fire safety; financial procedures; and inductions. As a result, we were only able to provide an opinion of **partial assurance**.

The following improvements have been agreed:

- The proposal to bring the Capitol's bar and catering facilities back in house will be dependent upon the success of the initial six month trial period. If the proposal is considered to be viable, a formal business case will be written and the appropriate authorisation process will be followed to obtain formal approval.
- Fire drills will be undertaken on a more frequent basis for the purpose of familiarising staff with the evacuation process and to identify areas for improvement.
- Testing of portable electrical appliances will be undertaken more regularly and appropriate records maintained to evidence the checks.
- Where appropriate, the Council's financial procedures will be adhered to in relation to raising purchase orders, ensuring that authorisation is given at the appropriate level.
- All new starters (including casual staff) will be provided with the necessary information required on induction. This will include an awareness of mandatory training (for example, fire safety; health and safety; and information security).

- Other areas for improvement identified related to staff health and safety, performance management and staff communications.

Accounts Receivable

Accounts Receivable is a key financial system which is used to administer and manage sundry debtors, including the recovery and write off (if applicable) of outstanding amounts due. The Debtors ledger balance at the end of September 2018 was in the region of £1.5m.

The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- All income generating activities are identified and accurately raised to customers;
- A customer account maintenance process is in place and operating effectively;
- Amendments to invoices are correct and authorised;
- Collection and debt recovery is managed efficiently and effectively;
- Write-offs are processed accurately and correctly authorised;
- Payments are received and recorded against the correct debtor account in a timely manner;
- Reconciliations between the debtors system and the general ledger are undertaken on a regular basis;
- Debt recovery performance is monitored and reported.

Based on the work carried out, we were able to provide an opinion of **reasonable assurance** in this area, with a number of areas of good practice identified. Periodic (recurring) invoices can only be raised by Finance officers and all invoices are reviewed by Finance officers prior to posting which includes checks on VAT status and coding. Only Finance officers are permitted to raise credit notes. The system provides an audit trail for all stages of the invoicing process, including amendments.

The following were identified as areas for improvement:

- Payment in advance will be further encouraged to reduce issues arising in respect of debt recovery.
- Whilst a standardised Aged Debtor report is available within Technology One (the Council's Financial Management system), work will be undertaken on the format of the report to convert it into a more usable format.
- Service departments will be reminded of their responsibility to monitor their outstanding debts, and to adopt a more proactive and timely approach in recovering debts.
- Service departments will be reminded of the need to ensure that invoices are supported by appropriate documentation (proof of debt).

Payroll

Payroll processing is an outsourced function, carried out on behalf of the Council by West Sussex County Council's external provider. All input in relation to new starters, leavers and permanent and temporary changes are submitted by the Council's Payroll and Benefits Controller. Up until January 2019 (period 10), payments had been made through the Payroll system to 798 people (which includes casual workers and payments to Members).

The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- Starters are properly approved, calculated and paid from the correct dates.
- Leavers are removed from the Payroll in a timely manner and paid correctly and accurately to the correct dates.
- Permanent variations to pay are properly approved, calculated and paid from the correct dates.
- Payroll data is regularly reconciled to the General Ledger.
- Temporary payments (including additional hours, expense claims and payments to casual staff) are correctly authorised prior to processing.
- Changes to standing data are reviewed, accurately input and authorised.

In completing this work, we were able to provide an opinion of **substantial assurance** as robust processes and controls were found to be in place.

Internal audit raised concerns in 2017-18 in relation to the reconciliation of payroll entries to the General Ledger. Significant improvements have now been introduced with the review confirming that all of the Payroll control accounts are now reconciled monthly.

Cash & Bank

Cash and Bank is a key financial system which ensures the safe receipt, recording and custody of monies received by the Council in respect of all services. The Council uses the Civica ICON cash receipting system which integrates with the Technology One system.

The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- All income transactions are promptly and accurately posted to the Cash Receipting system;
- All income is accurately and correctly populated to the financial system;
- The bank reconciliation is regularly prepared by an independent Finance officer with evidence of separation of duties with a review of the reconciliation by an appropriate senior officer;
- Bank signatories are up to date and accurate.

In completing this work, we were able to provide an opinion of **substantial assurance** as robust processes and controls were found to be in place. A few minor areas for improvement were identified and actions to address these were agreed in full with management.

Cultural Compliance – Economic Development

The Economic Development Department provides support to local businesses and works to secure inward investment in the District. The departmental responsibilities include Economic Development; Town Centre Management and Events; Employment and Skills; and the Visitor Economy, all of which contribute to the continued social and economic success of Horsham's communities.

This Cultural Compliance audit was undertaken to review the departmental arrangements for compliance with the Council's Corporate Governance arrangements.

The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- To ensure management has put in place appropriate arrangements for monitoring delivery of the service and assessing its performance and effectiveness;
- To ensure that there is an adequate budget setting and monitoring process in place and that appropriate measures are taken in a timely manner to address budget pressures;
- To ensure that expenditure is only incurred for legitimate Council business and is in line with the relevant procurement process;
- To ensure that where chargeable services are delivered, appropriate prices are set and regularly reviewed and that all income attributable to the work undertaken by the service is invoiced correctly;
- To ensure there is effective staff supervision and performance management including administration of staff development and well-being in accordance with the Council's procedures;
- To ensure that assets purchased for the Council are held securely and appropriately managed.

In completing this work, we were able to provide an opinion of **substantial assurance** as high standards of compliance were evidenced in almost all areas covered by the review.

It was noted in a few cases that purchase orders were raised retrospectively, and improvements in the timeliness of raising purchase orders would ensure authorisation was given in advance of the delivery of the service.

Alternative Weekly Collections – Post Implementation Review

The Alternate Weekly Collection (AWC) project was completed in April 2018, and internal audit carried out a post implementation review to evaluate the success of the project and identify any areas for improvement.

The collection of household waste is one of the highest profile services offered by local authorities, which affects every resident. The AWC project was introduced to address the following:

- Legislation requires the Council to increase the percentage of household waste recycled to a minimum of 50% by 2020.

- The Council is facing increasing financial pressures in order to identify savings.
- New waste collection model.
- An ageing refuse fleet which was no longer cost effective to maintain or fit for purpose.

The Council commissioned a consultancy company specialising in energy and environment to undertake a full review of the waste collection service at Horsham. They assessed the provision of the waste collection service and made recommendations for alternative provisions for the service in order to generate efficiencies and savings for the Council, increase the recycling rate throughout the district, and maintain a high quality service. The Alternative Weekly Waste Collection model was approved by Members.

Following a full review of the project documentation and detailed discussions with key members of the project team, the view of internal audit is that this was a successful project. All objectives have been realised and implemented; each member of the project team made contributions to the project; and comprehensive and detailed project documentation was available. Overall, AWC displayed satisfactory project controls.

We did not issue an opinion for this review, but a number of suggestions were made for improvement in future projects. This included two suggestions which have now been adopted corporately:

- Project documentation for key corporate projects is now held in a central location which can be accessed by the entire project team.
- Action dates for tasks will be determined which will help prevent actions being rolled forward.

In addition, work is currently in progress to ensure that adequate resources are made available to support future projects. This includes the use of cross-functional teams (where appropriate), and will help to minimise the impact on 'business as usual' activities.

Report to Audit Committee

11th July 2019

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 Appendix 1).

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.

	CRR02 CRR03 CRR06 CRR18	CRR01b CRR19	CRR30	
		CRR01c CRR05 CRR25 CRR31		
		CRR17 CRR26		

There are three risks which are currently considered to be high, eight medium risks and two 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
CRR19	Uncertainty in the UK and World economy – impact on financial markets and sterling leading to recession
CRR30	Increase in costs of homelessness, housing services, recycling and transport.

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.

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.

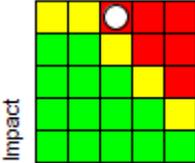
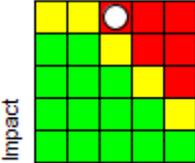
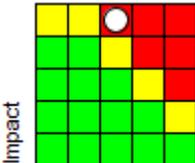
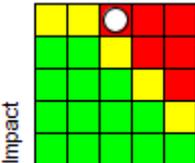
Appendix 1 Corporate Risk Report June 2019

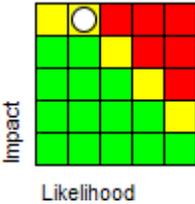
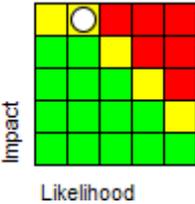
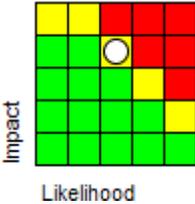
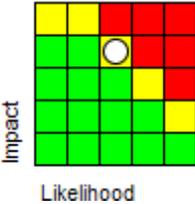
Risks ordered by RAG not numerically

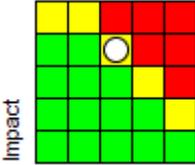
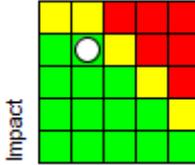
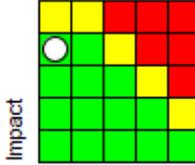
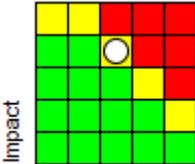
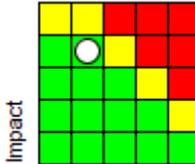
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Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR30</p> <p>Use:</p> <p>WSCC have proposed some cuts to their budgets on the September 2018 forward plan.</p> <p>Risk:</p> <p>Increase in costs of homelessness, housing services, recycling and transport</p>	Financial Service delivery in all services due to limited money	Glen Chipp		CRR.30.1 Work with other districts and voluntary organisations to seek ways to re-provide preventative services	Glen Chipp			<p><u>June 2019 Update:</u></p> <p><u>Waste</u></p> <p>Work is still progressing on evaluating food waste collections. MSDC are so far the only Council agreeing to start in September. Disposal capacity still being negotiated by WSCC.</p> <p>Recycling credits reduction is still being modelled by WSCC – no confirmation yet whether this can be phased.</p> <p>WSCC’s highways contract with Balfour Beatty has reduced the frequency of grass cutting on all roads.</p> <p><u>Housing</u></p> <p>Work still progressing with cuts being managed in two phases.</p> <p>Phase One: reviewing the impact of funding changes from September 2019 – March 2020.</p> <p>Phase Two: designing a new approach to services are commissioned collaboratively with WSCC in the future.</p>
				CRR.30.2 Provide evidence to county to inform their decision making	Glen Chipp			
				CRR.30.3 Task and finish group set up with representatives from across Districts and Boroughs to feed into process	Glen Chipp			

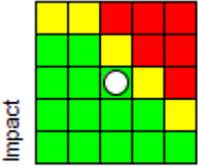
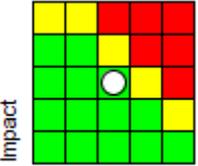
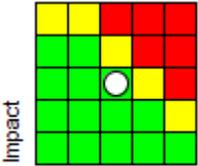
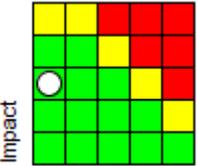
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR01b Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g. Business Rates).</p> <p><u>Risk:</u> (ii) Funding from Government is less generous than assumed in the MTFS from 2020</p>	<p>Reductions in funding</p> <p>Adverse effect on morale</p> <p>Financial</p> <p>Failure to achieve agreed objectives</p>	Jane Eaton		CRR.01b.1 Continue to keep a watching brief	Dominic Bradley	▶		<p><u>June 2019 Update:</u></p> <p>Uncertainty beyond 2019/20, especially with regards to the localisation (75%) retention of business rates and changes from the fair funding review remains a significant area of concern. Currently under consultation, that mention using excess Parking service income in the funding calculations, this will be reviewed as information and guidance on how the business rates scheme will work and results from the fair funding review are released.</p> <p>The January 2019 Budget and MTFS forecasts near balanced budgets, providing that £1.3m of savings and new income are achieved over the three years from 2020/21 to 2022/23.</p> <p>An updated MTFS will be presented to Members during 2019.</p>
<p>CRR19 <u>Cause:</u> 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><u>Risk:</u> 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>	<p>Financial Service Delivery Compliance with Regulations</p>	Jane Eaton		CRR.19.2 Monitor the external environment	Dominic Bradley	▶		<p><u>June 2019 Update:</u></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> <p>The Council is reviewing some areas of income generation activity, but generally ended 2018/19 with more income than the budget which contributed towards a surplus.</p>

<p>CRR18 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-disruption to Council services. Cost of investigation and recovery of systems. Fraud/theft. Loss of the integrity of Council Records. Penalties from the ICO. Adverse media coverage.</p>	<p>Jane Eaton</p>		<p>CRR.18.1 Staff Member Training</p> <p>Claire Oliver / Robert Laban</p> <p>▶</p>		<p>June 2019 Update:</p> <p>Level of attack is great. Remediation ongoing.</p> <p>CRR.18.1 - IT Security Training has been rolled out to all staff.</p> <p>CRR.18.2 – This work is ongoing.</p> <p>CRR.18.3 All work is ongoing.</p> <p>CRR.18.4 Patching of devices ongoing.</p> <p>CRR.18.5 Work is in progress on PSN accreditation for 2019/2020.</p> <p>CRR.18.6 – Work is ongoing.</p> <p>CRR.18.7 – Work is ongoing.</p> <p>CRR.18.8 – Work is ongoing.</p>
				<p>CRR.18.2 Awareness of current threats</p> <p>Andrea Curson</p> <p>▶</p>		
				<p>CRR.18.3 An effective ICT Service delivery team</p> <p>Andrea Curson</p> <p>▶</p>		
				<p>CRR.18.4 Effective patching and updates to mitigate known vulnerabilities</p> <p>Andrea Curson</p> <p>▶</p>		
				<p>CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)</p> <p>Andrea Curson</p> <p>▶</p>		
				<p>CRR.18.6 Effective policies in place which outline security requirements for users of ICT</p> <p>Andrea Curson</p> <p>▶</p>		
				<p>CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.</p> <p>Andrea Curson</p> <p>▶</p>		
				<p>CRR.18.8 The CenSus Cloud will transfer the risks to the cloud provider</p> <p>Andrea Curson</p> <p>▶</p>		
				<p>CRR.18.9 Implementation of LGA Cyber Security review plan</p> <p>Andrea Curson</p> <p>▶</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>	<p>Jane Eaton</p>		<p>CRR.01c.1 Continue to keep a watching brief</p> <p>Dominic Bradley</p> <p>▶</p>		<p>June 2019 Update:</p> <p>There was a £1.16m reduction in Rateable Value on the 2017 list during 2017/18 and a further £0.78m reduction during 2018/19.</p> <p>This overall 'trend' remains a significant concern and risk to the Council's funding position should it continue.</p>

<p>CRR05 Governance <u>Cause:</u> Managers are responsible for ensuring that controls to mitigate risks are consistently applied.</p> <p><u>Risk:</u> Officers are either unaware of expected controls or do not comply with control procedures.</p>	<p>Failure of business objectives</p>	Jane Eaton		CRR.05.1 Officer training	Jane Eaton	▶		<p><u>June 2019 Update:</u></p> <p>CRR.05.3: The 2018/19 assurance statements have been signed off.</p> <p>Training meeting held with the new Head of Communities and she is addressing some historic non-compliance in her area (refer to the Capitol Cultural Compliance audit).</p> <p>Head of Strategic Planning training meeting set for 21 June.</p>
	<p>Health & Safety</p>			CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Jane Eaton	▶		
	<p>Financial</p> <p>Service Delivery</p> <p>Compliance with Regulations</p> <p>Personal Privacy Infringement</p> <p>Reputation damage</p>			CRR.19.3 Monitor internal indicators, particularly income generation, and respond appropriately to adverse trends.	Dominic Bradley	▶		
<p>CRR25 <u>Cause:</u> 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><u>Risk:</u> The IT transition will not be fully completed by 1 April 2018 (extended to May 2019).</p>	<p>Service Delivery</p> <p>Reputation</p>	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><u>June 2019 Update:</u></p> <p>Transfer scheduled for the last weekend in June</p>
<p>CRR31 <u>Cause:</u> The success of the election process is dependent upon adequate staffing, effective equipment (including IT) and proper processes (a separate risk assessment is undertaken to support the process).</p> <p><u>Risk:</u> Unavailability of key officers, inadequate processes (including risk assessments and election project plan) leading to failure (including legal challenge).</p>	<p>Election Petition (challenge through the courts). Election would need to be re-run - potential for significant financial & resource implications. Results of election delayed and associated reputation risk</p>	Jane Eaton		CRR31.1 Review risks as part of project planning process prior to an election	Sharon Evans	▶		<p><u>June 2019 Update:</u></p> <p>There have been previous staffing difficulties in Democratic Services which was temporarily overcome by using a Locum to enable the smooth running and the successful completion of elections without incident.</p>
				CRR31.2 Training of staff	Sharon Evans	▶		
				CRR31.3 Review the adequacy of insurance cover for Returning Officers @ start of election process ~ ensure adequate protection against an Election Petition	Sharon Evans	✔		
				CRR31.4 Training of Elections staff to provide cover	Sharon Evans	▶		

				CRR31.5 Elections Officer temporary cover in place to lessen the risk	Sharon Evans	▶		
<p>CRR02 Managerial / Professional <u>Cause:</u> 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.</p> <p><u>Risk 1:</u> Major data breach or leak of sensitive information to a third party. <u>Risk 2:</u> Risk of significant ICO fine for non-compliance with new General Data Protection Regulations (GDPR).</p>	<p>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</p>	Jane Eaton		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Andrea Curson / Sharon Evans	▶		<p>June 2019 Update:</p> <p>CRR.02.1 This work is ongoing.</p> <p>CRR02.3 This work is ongoing</p> <p>CRR02.4 Work is in progress on PSN accreditation for 2019/2020.</p>
				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	Sharon Evans	▶		
<p>CRR03 <u>Cause:</u> 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><u>Risk:</u> The Council is found to have failed to fulfil its obligations under the Act in the event of a civil emergency.</p>	<p>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 Censure by regulators Reputation damaged</p>	Adam Chalmers		CRR.03.1 Update corporate business continuity plan and regular review.	Rob Jarvis	▶		<p>June 2019 Update:</p> <p>CRR.03.1: Corporate Business Continuity plan reviewed and updated 28/11/2018. Next review date is 28/11/2020 (or in line with any changes or a BC incident).</p> <p>CRR.03.2: Managers responsible for departmental BC plans were asked (via e-mail) to complete an annual review by Friday 30th November 2018 as part of the annual review. This is not followed up every year however 2019 BCP's will be reviewed by Tony Skelding.</p> <p>Some managers have expressed difficulty in updating embedded excel tables so Tony Skelding will review the template for rollout for 2019 BCP's.</p> <p>CRR.03.4: Hop Oast being reconsidered to be the new warm site, as dark fibre to be installed</p>
				CRR.03.2 Update departmental business continuity plans and regular review.	Rob Jarvis	▶		
				CRR.03.4 Build IT disaster recovery procedure into new warm site. Further plan revision will be made to reflect changes.	Barbara Childs	▶		
				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.	Rob Jarvis	▶		

							there. With IT to confirm suitability. CRR.03.5: Bitesize workshops completed, 2019 sessions have been scheduled. Plan to hold councillor training pending date from Democratic Services.
<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. Risk: A health & safety failure occurs.</p>	<p>People come to harm Complaints/claims/ litigation Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale Stress and absenteeism</p>	<p>Glen Chipp</p>		<p>CRR.06.2 Develop and implement a corporate inspection strategy (By 30/06/16).</p>	<p>Robert Laban / Health & Safety Officer</p>		<p><u>June 2019 Update:</u> CRR.06.2: A self-inspections policy has been implemented. Monitoring details and reporting to be finalised by Sept 2019. CRR.06.3 – Completed</p> <ul style="list-style-type: none"> • H&S responsibilities are set out in the Corporate H&S Policy and H&S subject policies. • H&S Management Forum is responsible for implementing these policies and sharing best practice across the Council. • Team self-audits in place. • H&S Training matrix has been published. • E-learning courses for H&S key topics are accessible via Horsham LAB. <p>CRR.06.4: The introduction of a central repository for risk assessments remains deferred until Technology One can be configured in this respect, or an alternative system can be developed/ purchased – assessments of suitability/ effective system in underway. Orbis audit of fire safety is complete and recommendations are being addressed.</p>
				<p>CRR.06.3 Clarity of responsibilities and implementation of a training programme</p>	<p>Robert Laban</p>		
				<p>CRR.06.4 Implement a central repository for risk assessments</p>	<p>Robert Laban / Health & Safety Officer</p>		

<p>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 incurred. HDC has a case load with a particularly high number of working people with many changes of circumstances. Refer to new risk CRR25</p>	<p>Financial Service Delivery Compliance with regulations Reputation</p>	<p>Jane Eaton</p>	 <p>Impact</p> <p>Likelihood</p>	<p>CRR.17.1 Continuously monitor the level of quality control checking.</p>	<p>Beccy Salmon</p>		 <p>Impact</p> <p>Likelihood</p>	<p><u>June 2019 Update:</u> This is an ongoing risk. The risk remains until Universal Credit comes in for all working age cases. Figures submitted for 2018/19 had reasonable headroom for the auditors finding more error but this does not guarantee that there won't be losses in future years</p>
<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. Risk: That the cost of exiting the existing Revenues and Benefits agreement with MSDC may be high.</p>	<p>Financial Reputation</p>	<p>Jane Eaton</p>	 <p>Impact</p> <p>Likelihood</p>	<p>CRR.26.1 Continue to work with MSDC to reduce costs</p>	<p>Jane Eaton</p>		 <p>Impact</p> <p>Likelihood</p>	<p><u>June 2019 Update:</u> Horsham District Council has paid the sums it believes are reasonable redundancies. However Mid Sussex District Council have asked for a further £114k and this remains in dispute. A contingent liability was allowed in the 2018/19 accounts for this sum.</p>

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Report to Audit Committee

11th July 2019

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt



Annual Governance Statement 2018/19

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 2018/19. 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 Annual Governance Statement for 2018/19.

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 Housing and Community, 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 2018/19
- Appendix B: Local Code of Corporate Governance
- Appendix C: Governance Assurance Framework
- Appendix D: AGS Action Plan 2018/19
- Appendix E: AGS Action Plan 2019/20

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 2018/19 is attached in Appendix A.

4 Next Steps

- 4.1 The Committee is asked to approve the final version of the Annual Governance Statement at the July meeting.

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 Housing and Community; 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 2018-19

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 2019 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2018/19 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 Overview and Scrutiny 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 Governance Committee leads on changes to the Constitution including the scheme of delegation.

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 2018/19. The Governance Committee began a further review of the Constitution during 2018/19 with a particular focus on the effectiveness of planning decision making. This was reported to Council in April 2019.

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 three task and finish groups to review particular issues. In summer 2018 the Overview and Scrutiny Committee held a Task and Finish Group to review the success of its previous review.

The Council participates in a number of partnerships with other local authorities. In particular the Revenues and Benefits, Building Control, Internal Audit and Procurement. The Council, in agreement with its partners Adur and Worthing and Mid Sussex Councils, disbanded the ICT partnership in favour of local working combined with a move to the Cloud. From 1 April 2018 the Council purchases its revenues and benefits service from the LGSS. 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. Senior Officers and those involved in procurement are required to submit an annual declaration as well as all officers making declarations when needed. Members' 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

The Head of Technology updated the Council's Information Security Policies during 2018/19 and compulsory training for all staff in technology security was introduced.

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. A further review of the Constitution, especially around the planning function commenced by the Governance Committee during 2018. The changes were

agreed by Council in April 2019. The Governance Committee also ironed out various anomalies in the 2016 Constitution 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 at each meeting.

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. All new recruits have a series of basic courses in key areas such as health and safety, data protection and IT security they must complete before they pass their induction. During 2018/19 the Head of Human Resources and Organisational Development has started a programme to ensure all staff have completed these courses and a programme is in place for annual updates where necessary.

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.

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 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-committees in favour of task and finish groups, 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:

- In the 2018/19 year the Council comprised 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.
- 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 four 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 internal 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 Orbis Partnership 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.

11. IMPROVEMENTS DURING THE YEAR

The following improvements to the Governance Framework were recognised during 2018/19:

- 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 moving its meetings before each Cabinet to allow pre-scrutiny of items.
- E-Learning training has continued for staff, enhanced by a corporate MindTools subscription. 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, data security and cyber crime
- An instruction was given to all managers to ensure all staff have completed their compulsory governance e-learning courses. A follow up review shows many staff, especially those who have worked for the Council for a long time, have not completed this training. A failure from a service to report a money-laundering allegation correctly suggests not completing these courses is leading to governance issues. Work to remedy this will continue in 2019/20.
- Completed the rollout of the 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.
- A new HR system was procured which will replace existing databases and enable managers to self-serve and, as a Cloud based system, will reduce the risk of the loss of the system in the event of a disaster at the Parkside building.
- A new Legal Case Management system was rolled out allowing for more accurate recording of our legal cases and better control of work in the Legal Services team. Our technology team have put this system in the Cloud also reducing the risk of the loss of the system in the event of a disaster at the Parkside building.
- Roll out of Office 365 which will reduce the risk of the loss of the system in the event of a disaster at the Parkside building.
- Internal audit moved into the Orbis partnership from 1 April significantly increasing the resilience of this small team.
- The role of director of the Capitol pantomime has been incorporated in the role description for the Capitol's general manager. This removes the need to tender this work and procurement and conflict of interest issues previously identified surrounding this.
- A requirement for all senior managers to make an annual declaration of personal and financial interests was extended to all officers involved in procurement
- The Fire Risk Assessment for the Forum has been reviewed and the action plan has been updated for completion of the necessary works. The Fire Risk Assessment action plan for Swan Walk is in the process of being agreed.

12. SIGNIFICANT GOVERNANCE ISSUES

The 2017/18 Annual Governance Statement included an Action plan for 2018/19. Progress against the risks identified is reported in Appendix D

New significant governance issues are reported to the Audit Committee.

One significant issue was reported to Audit Committee on 10 April 2019. A policy decision made by Council in December 2015 was not implemented by the CenSus Revenues and Benefits Partnership and was not corrected in the following two years.

Recommendations for improvements arising from this and other matters are included in the 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

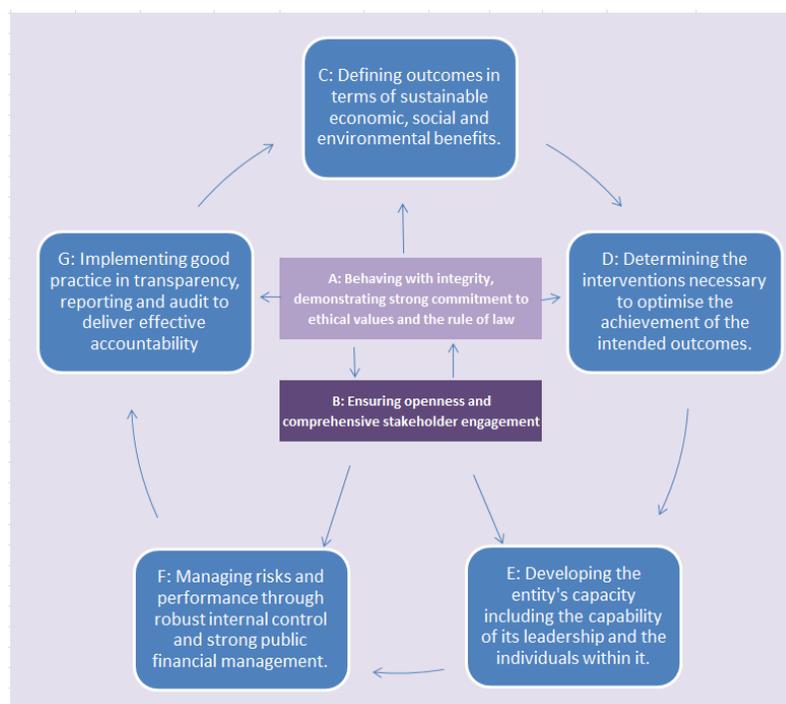
Corporate Governance comprises the systems, processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

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 Governance Committee meets 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 continually investigates 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 has taken 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 Horsham Chief Internal Auditor reports to the Audit Committee. Audit 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 four 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 service (provided by Orbis) 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 actions for improvement in control processes is monitored and reported to Members.
- Partnership arrangements are effectively monitored by Partnership Boards.

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Assurance Framework Documentation

- Constitution
- Code of Conduct
- Complaints Procedure
- Equalities Scheme
- Head of Service Assurance Statements
- Communications Strategy
- Financial Policies & Procedures
- Risk Management Strategy & Toolkit
- Risk Registers
- Performance Framework

- Employee Policies
- Pay Policy
- Anti-Fraud & Corruption Policy
- Whistleblowing Policy
- Annual Internal Audit Report & Opinion
- Statement of Accounts
- Annual Audit Letter from external audit
- Annual Complaints Report
- Report of Local Government Ombudsman
- Results of External Inspections

- Corporate Plan & Service Plans
- MIFS & Budget
- Money Laundering Policy
- Partnership Agreements / SLAs
- Treasury Management & Investment Strategy
- Procurement Code
- Values & Behaviours

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APPENDIX D: ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2018/19

No.	Area for Improvement	Actions	Responsible Officer	Target Date	Outcome
1	Information security policies	Review and rewrite information security policies	Head of Technology Services	30/9/18	Completed
2	S151 and Monitoring Officer sign off of decision reports	Roll out of tracking and sign off through Modern.gov	Democratic Services Manager	31/3/20	Target date has been moved to 31/3/20.
3	Officer/Member protocol	Reintroduce an officer/member protocol	Head of Legal & Democratic Services	30/6/18	Completed
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)	31/05/19	Full migration date moved to 31 May 2019 due to external Tech provider being unable to meet earlier date.
5	Verto Project Management system	Review and redesign of the Verto Project Management system	Project Assurance Manager	31/7/18	Completed
6	Reliability of power supply at the depot	Purchase and implementation of a generator	Head of Property Services	1/12/18	Cost/benefit assessment decision taken not to purchase a generator as impact likelihood of power outages at Hop Oast are much reduced.
7	Horsham in-house technology disaster recovery plan	Complete the Disaster Recovery Plan for the in house technology	Head of Technology Services	31/3/19	Completed

8	Legal Services' case management & disaster recovery	Implement the new Legal Services Case Management System	Legal Services Business Manager	1/12/18	IKEN completed.
9	Plan for major power outage in the District	Prepare a plan for dealing with this type of emergency	Well-being/ Community Safety Manager	31/10/19	This is being investigated and a plan is to be produced by 31/10/19
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	Completed
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	The software and technology support contracts are continuously reviewed. Ongoing process
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	01/04/19	On target for Live HR system
13	Mandatory governance training courses	Ensure all mandated governance courses are complete by the deadlines	Heads of Service	31/3/19	On target. Heads of Service will ensure all courses are completed by 31/3/19.
14	Improve disaster recovery and reliability of email systems	Roll out of office 365	Head of Technology Services	31/12/18	Completed

APPENDIX E: ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2019/20
Revised 21/05/19 (AGG Meeting)

No.	Area for Improvement	Actions	Responsible Officer	Target Date
1	S151 and Monitoring Officer sign off of decision reports (JE)	Roll out of tracking and sign off through Modern.gov	Democratic Services Manager	31/03/20
2	Revenues and Benefits disaster recovery (JE)	Move of all Horsham and Mid Sussex based revenues and benefits systems to Milton Keynes Council	Head of Revenues and Benefits (LGSS)	30/06/19
3	Plan for major power outage in the District (JE)	Prepare a plan for dealing with this type of emergency	Well-being/ Community Safety Manager	31/10/19
4	Mandatory governance training courses (JE)	Ensure all mandated governance courses are completed by all staff. Extended to 31/05/19 for Legal and Elections officers by CE Identify the courses needed, annual refresh and implement a refresh programme	Heads of Service Head of HR & OD	31/05/19 31/3/20
5	Review Council Tax Reduction Scheme non-implementation in 2015 (JE)	Report on the causes of the Governance Framework issue reported and improvements to the Audit Committee	Director of Corporate Resources	10/4/19 COMPLETED
6	Review of departmental GDPR compliance (Diane Lambert)	Quarterly meetings with GDPR/FOI reps. All Heads of Service to review and update their GDPR Assurance Checklist	All Heads of Service	31/07/19

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Report to Audit Committee

11 July 2019
By the Director of Corporate Resources
INFORMATION REPORT



Not exempt

Treasury Management Activity and Prudential Indicators 2018/19

Executive Summary

This report covers treasury activity and prudential indicators for 2018/19. At 31 March 2019, the Council's external debt was £4m (£4m in 2017/18) and investments totalled £36.1m (£37.7m in 2017/18) including call accounts and Money Market Funds.

During 2018/19, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.887m (£0.911m in 2017/18) was earned on investments, an average return of 2.1% (1.6% in 2017/18). There was one instance reported to this Committee on 12 December 2018 when the single institution limit of £2.5m was breached overnight in the Council's own bank; otherwise all activity was within limits and in line with indicators.

Recommendations

The Committee is recommended to:

- i) Note the Treasury Management stewardship report for 2018/19.
- ii) Note the actual prudential indicators for 2018/19.
- iii) Recommend that Council approve an increase from £1m to £1.5m in the limit on lending to subsidiary companies in the 2019/20 Investment Strategy.
- iv) Recommend that Council approve a £0.5m limit on shareholding in its subsidiary companies in the 2019/20 Investment Strategy.

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 2018/19 in accordance with the requirements of the relevant CIPFA Codes of Practice.
- iii) & iv) Changes to the limits in the 2019/20 Investment Strategy are required to enable the housing companies agreed by Cabinet on 21 March 2019 to commence operations

Background Papers

"Treasury Management Strategy 2018/19" - Audit Committee 13 December 2017
"Budget for 2018/19" – Cabinet 25 January 2018
"Budget for 2019/20" - Cabinet 24 January 2019
"Treasury Management and Prudential Indicators mid-year report 2018/19"- Audit Committee 12 December 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 2018/19. It meets the requirements of the 2017 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 2018/19. 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 2018/19 together with Treasury Management Strategy 2018/19 were agreed by Council on 21 February 2018 having been approved by this Committee on 13 December 2017.
- 1.4 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 13 February 2019.

2 The Council's Capital Expenditure and Financing 2018/19

- 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 13 February 2019 as a part of the budget report.

£m	2018/19	Actual £000	Estimate £000	Variance £000
Total capital expenditure*		14.6	15.5	(0.9)
Resourced by:				
Capital receipts and third party contributions		(3.1)	(3.8)	0.7
Capital grants		(1.4)	(1.2)	(0.2)
Revenue reserves**		(6.4)	(6.6)	0.2
Unfinanced capital expenditure (additional need to borrow)		3.7	3.9	(0.2)

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

** Includes use of New Homes Bonus

- 2.2 The capital spend in 2018/19 was under the budget as revised in the 2019/20 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 2018/19 MRP Policy, as required by Ministry of Housing, Communities & Local Government (MHCLG) Guidance, was approved on 21 February 2018 as a part of the 2018/19 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 £m	Estimate £m	Variance £m
Opening balance 1 April 2018	30.4	30.4	0.0
plus unfinanced capital expenditure	3.7	3.9	(0.2)
less Minimum Revenue Provision	(0.9)	(0.9)	0.0
Closing balance 31 March 2019	33.2	33.4	(0.2)

4 Treasury Position at 31 March 2019

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 amount was £4m which was due to be repaid on 31 March 2019 but was still outstanding as the 31 March was a Sunday and it was not repaid until Monday 1 April 2019.

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 2019 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 2019		31 March 2018	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Rate Debt	4.0	3.4%	4.0	3.4%
Investments	(36.1)	2.4%	(37.7)	2.0%
Net borrowing position	(32.1)		(33.7)	

4.3 Returns continued at the historically low levels during 2018/19 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 2018/19 plus the expected CFR movement over 2019/20 and 2020/21. As external debt was £4m and the CFR is £33m 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 £18m for 2018/19. The table below demonstrates that during 2018/19 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 £9m. Gross borrowing was at £4m for the year well within the operational boundary.
- 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.

	2018/19
Authorised Limit	£18m
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 0.8% 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 2018/19. 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 fixed 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 had one longer term debt and had set the percentage range to allow it freedom to refinance the debt if necessary there is no danger of not meeting this indicator. The table below formally shows the 2018/19 estimates and the actual position.

Maximum percentage of borrowing in each age category	Original Indicator	Actual Position
Under 12 months	100%	100%
12 months to 2 years	100%	0%
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	£2m

Economic and treasury management context for 2018/19

- 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 2018/19, is included as the appendix to this report.

Debt management activity during 2018/19

- 5.9 No new long term borrowing was undertaken to add to the Council's £4m loan from the Public Works Loan Board at 3.38% which was repayable on 31 March 2019 but was actually repaid on Monday 1 April 2019.
- 5.10 As the CFR shown above is £33m 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 2.2%) and the Council's advisers predict that they will not be increasing significantly in the next three years.

6 Investment activity in 2018/19

- 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. Its surplus cash is therefore held with local authorities, highly credit-rated banks, approved building societies and diversified 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 reduced the funds to be invested by £29m. 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 2019 £m	31 March 2018 £m	31 March 2017 £m
Revenue reserves	23.0	20.9	20.0
Other reserves and provisions	15.7	17.2	14.4
Usable capital receipts	1.3	1.0	5.3
Unapplied capital contributions	18.9	17.4	13.2
Working capital	5.8	7.2	8.6
Total	64.7	63.7	61.5

- 6.4 **Yield** - The investment income budget for the year 2018/19 was £0.706m (£0.593m in 2017/18). The actual interest received was £0.887m (£0.911m in 2017/18). 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 2.1% (1.6% in 2017/18) was achieved; the benchmark, which is the average LIBID 7 day rate, was 0.51% (0.21% in 2017/18).
- 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 one notch 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 2018/19 the benchmark amount was £3m. The actual funds available were in excess of the benchmark for the whole year; the lowest amount available overnight was £4m with an additional £9.4m available within a week for the whole year.
- 6.7 **Compliance with strategy** – There was an instance when the limit on single institution investments was breached when the cash in the Council’s current account went over £2.5m. This was reported in detail on 12 December 2018 to this committee as a part of the usual mid-year report. 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 was therefore reported to this committee.
- 6.8 **Unrated Pooled funds** – The Council holds £16.7m in unrated pooled funds comprising equity, bonds and property. These funds yield 3.8% 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 £0.113m below the initial investment. 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.
- 6.9 **Variable Net Asset Value Money Market Funds** – The Council uses Constant Net Asset Value Money Market Funds for day to day liquidity. The constant refers to the fact that each unit of the fund costs £1 to buy and is redeemed at £1. To facilitate this, the investments within the funds are short term and liquid and so returns are close to Bank of England bank rate. As the Council has cash it can invest over the medium term it has £9.4m in money market funds which can invest in longer term instruments like short term bonds and consequently produce higher yields (approx. 1.2%) but where the value of a unit invested can change. On 31 March 2019 the current value of the sum invested was £33,250 less than the purchase price. Under accounting rules this has been charged as though it was a normal expense although the loss in value has not been crystallised. The Council is able to hold these investments in the medium term so will not be forced to crystalize the loss.

Non-Treasury investments

- 6.10 The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG’s Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 6.11 At year end the Council held £50.9m of directly owned property and £0.2m loans to local bodies for service purposes. These investments generated £3.9m of investment income for the Council after taking account of direct costs, representing a rate of return of 7.6%. These returns are, on the face of it, higher than the return earned on treasury investments but significant indirect costs such as the property management costs and a share of the Minimum Revenue Provision are not netted

off income. There are also additional risks of holding and managing commercial property as well as the fact they are highly illiquid.

- 6.12 The income from these non-treasury investments provides an important contribution to finance the Council's overall service delivery. To ensure stable income flows the Council has a core of longer term leases. The Council's properties have very high occupancy in the high 90% and so can place reasonable reliance on a stable flow of rents. That said there is a significant retail element (£22.0m) which although not yet significantly affected by the general woes of the high street requires close monitoring by property management staff.

7 Proposed amendments to Investment strategy 2019/20

- 7.1 As a part of the budget the Council approved a Capital Strategy which set amongst other things limits for loans for service purposes to local bodies or Council subsidiaries and on shareholdings in companies for service purposes. The decision to set up housing companies on 21 March 2019 has led to the need to amend the relevant limits so as to allow the Council to operate the companies. As a consequence the Committee is asked to consider an increase from £1m to £1.5m on limit for loans for service purposes to local bodies or Council subsidiaries. To enable the Council to take a shareholding in its subsidiaries the limit on shareholdings in companies for service purposes which was zero is requested to be set at £0.5m. These are judged to be prudent limits to allow the companies to operate successfully.

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

Economic Background in 2018/19

After spiking at over \$85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over \$50 in late December before steadily climbing toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, the original EU 'exit day' passed by without resolution. The EU subsequently granted extensions to 31st October and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets: December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PwLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

Credit background: The Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

Agenda Item 12

Audit Committee Work Programme for 2019

April		
	Internal audit and internal control (delegations a, b and c)	To receive the quarter 3 update on progress against the previous year's Annual Audit Plan and progress report on follow ups from previous years To approve the Internal Audit Strategy and Audit Plan for the new financial year
	Statement of accounts (delegation d)	To consider any changes to accounting policies to be included in the statement of accounts
	External audit (delegation e)	To receive the Quarterly External Audit progress report To receive the Annual Certification of Claims and Returns for the financial year ending the previous March.
	Effectiveness of Financial procedure rules (delegation f)	By exception only
	Risk management (delegation g)	To receive an update on the Council's risk register
	Annual governance statement (delegation h)	To review the draft annual governance statement
	Borrowing, lending and treasury management (delegation i)	None
	Other matters referred by the Chief Finance Officer or Monitoring Officer (delegation j)	By exception only
July		
	Internal audit and internal control (delegations a, b and c)	To receive the annual report and opinion of the Chief Internal Auditor on the previous year
	Statement of accounts (delegation d)	Receive and approve the statement of accounts for the previous financial year
	External audit (delegation e)	To receive the Annual audit results report for the previous year To receive the Letter of Representation from the Chief Financial Officer to the External Auditor
	Effectiveness of Financial procedure rules (delegation f)	By exception only
	Risk management (delegation g)	To receive an update on the Council's risk register
	Annual governance statement (delegation h)	To receive the annual governance statement for the previous year
	Borrowing, lending and treasury management (delegation i)	To receive and approve a report on the treasury management activity and indicators for the previous financial year
	Other matters referred by the Chief Finance Officer or Monitoring Officer (delegation j)	By exception only
October		
	Internal audit and internal control (delegations a, b and c)	To receive the quarter 1 update on progress against the current year's Annual Audit Plan and progress report on follow ups from previous years
	Statement of accounts (delegation d)	None

	External audit (delegation e)	To receive the annual audit letter concerning the previous financial year To receive a progress report against the annual audit plan the current financial year
	Effectiveness of Financial procedure rules (delegation f)	By exception only
	Risk management (delegation g)	To receive an update on the Council's risk register To receive an annual report on the cyber security risk To receive the risk based verification policy (December in 2018)
	Annual governance statement (delegation h)	None
	Borrowing, lending and treasury management (delegation i)	None
	Other matters referred by the Chief Finance Officer or Monitoring Officer (delegation j)	By exception only
December		
	Internal audit and internal control (delegations a, b and c)	To receive the quarter 2 update on progress against the current year's Annual Audit Plan and progress report on follow ups from previous years
	Statement of accounts (delegation d)	None
	External audit (delegation e)	To receive a progress report against the annual audit plan for the current financial year To receive the annual audit plan for the current financial year
	Effectiveness of Financial procedure rules (delegation f)	By exception only
	Risk management (delegation g)	To receive an update on the Council's risk register
	Annual governance statement (delegation h)	To receive the mid-year update on the progress against the actions contained in the Annual Governance statement approved in July.
	Borrowing, lending and treasury management (delegation i)	To receive the Treasury Management Activity and Prudential Indicators mid-year report for the current financial year. To review the Capital and Investment Strategy prior to referral to Council or To approve the Capital and Investment Strategy. (New document, governance to be confirmed).
	Other matters referred by the Chief Finance Officer or Monitoring Officer (delegation j)	By exception only OCCASIONAL REGULAR ITEMS NOT TIED TO ONE MEETING Every 5 years, the Independent External Assessment of Internal Audit Every 5 years, appointment of External Auditors by the PSAA