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Audit Committee

Wednesday, 15th July, 2020 at 5.30 pm
via Remote Video Link

Councillors: Stuart Ritchie (Chairman)

Tony Bevis
John Blackall
Paul Clarke

Ruth Fletcher
Richard Landeryou
Jack Saheid

You are summoned to the meeting to transact the following business

Glen Chipp
Chief Executive

In line with Government guidance, Horsham District Council's office at Parkside is closed until further notice. Public meetings will go ahead with Councillors participating via remote video link and the public via an audio link. The meeting will be livestreamed on the Council's YouTube Page [here](#)

Agenda

	Page No.
1. Apologies for absence To receive any apologies for absence.	
2. Minutes To approve as correct the minutes of the meeting held on 1 st April and 20 th May 2020. <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 - 8
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 Progress Report	9 - 16
	To receive the Audit Progress Report for the year ending 31 st March 2020 – to be presented by the External Auditor	
6.	Statement of Accounts	17 - 74
	To receive and approve the statement of accounts for 2019/20.	
7.	Internal Audit - Annual Report and Opinion 2019/20	75 - 94
	To receive and approve the Internal Audit Annual Report and Opinion 2019/20.	
8.	Risk Management - Quarterly Update	95 - 106
	To receive the quarterly report of the Director of Corporate Resources on risk management	
9.	Annual Governance Statement	107 - 128
	To receive the Annual Governance Statement for 2019/20	
10.	Internal Audit reviews of Revenues and Benefits 2019/20	129 - 132
	To note the internal audit reports of Revenues and Benefits completed by LGSS Internal Audit.	
11.	Treasury Management Activity and Prudential Indicators 2019/20	133 - 144
	To receive a report from the Director of Corporate Resources	
12.	Audit Work Programme 2020	145 - 148
	To note the Committee's annual Work Programme	
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
1 APRIL 2020

Present: Councillors: Stuart Ritchie (Chairman), John Blackall, Paul Clarke, Ruth Fletcher and Richard Landeryou

Apologies: Councillors: Tony Bevis and Jack Saheid

AAG/35 **APPOINTMENT OF VICE CHAIRMAN**

Cllr John Blackall was nominated as vice chairman of the Audit Committee by Cllr Stuart Ritchie, he was seconded by Cllr Paul Clarke

RESOLVED

Cllr John Blackall would be the Vice Chairman of the Audit Committee for the remainder of the municipal year.

AAG/36 **MINUTES**

The minutes of the meeting from 18 December 2019 were agreed to be an accurate record and were signed by the Chairman.

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

There were no declarations of interest.

AAG/38 **ANNOUNCEMENTS**

Under the newly implemented Coronavirus Act 2020 provision had been made for Local Authority Meetings to be held remotely.

AAG/39 **TO AGREE THE DATES OF MEETINGS IN 2020/21 AS FOLLOWS:**

Members agreed to the suggested dates as printed, however the dates would be kept under review during the COVID-19 outbreak.

RESOLVED

The meetings of the Audit Committee would be held on 15 July 2020, 30 September, 16 December 2020 and 14 April 2021.

AAG/40 **EXTERNAL AUDIT PROGRESS REPORT**

The Committee received the external audit progress report from its auditors Ernst and Young.

One additional significant risk had been identified and one further area of audit focus had been identified since December 2019. The additional significant risk was the valuation of retail property following the economic difficulties in the retail sector, which have a direct impact on the value of the retail units. The additional area of audit focus was the restatement on the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis and related disclosure notes. The Council changed its internal reporting structure in 2019/20, therefore the comparative analysis will need to be restated in the accounts.

External Audit undertook their interim visit in March 2020 and had progressed work surrounding: Income and expenditure; Payroll; Additions and disposal; Property valuations; IFRS 16.

Performance materiality had been set at 75% for 2019/20.

Members noted the contents of the report.

AAG/41 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Corporate Resources presented the Risk Management Quarterly Report. The high risks were identified as followed:
CRR35 – The Council was unable to deliver statutory front-line services to the community due to staff shortages
CRR016 – Funding from Government was less generous than assumed in the Medium-Term Financial Strategy from 2021
CRR03 – The Council was found to have failed to fulfil its obligations under the Act in the event of a civil emergency.
CRR19 – Uncertainty in the UK and World economy leading to recession
CRR31 – Unavailability of key officers

RESOLVED

That the Committee note the report.

AAG/42 **ANNUAL GOVERNANCE STATEMENT**

The Director of Corporate Resources presented the draft Annual Governance Statement.

RESOLVED

That the Committee approve the draft Annual Governance Statement for 2019/20

AAG/43 **INTERNAL AUDIT PROGRESS REPORT - QUARTER 3 (01/09/19 TO 31/12/19)**

The Council's Chief Internal Auditor presented the Internal Audit Progress Report. Of the six formal audits finalised during Quarter 3, one received a

“partial” assurance opinion, two received “reasonable” assurance opinions and three received “substantial” assurance opinions. There were no opinions of “minimal assurance”

The Audit that received partial assurance was Accounts Receivable. This was because one department had significantly fallen behind in the invoicing of some of its customers following a change of software system in the service. These issues had been resolved and processes had been improved. A separate piece of audit work in this department is planned for 2020/21 which will include a review of this billing process. With the exception of this particular issue, the Accounts Receivable process and controls in operation through the financial system were considered to be effective.

The Council’s Chief Internal Auditor reported that the internal audit service would be able to continue working during the COVID-19 outbreak.

RESOLVED

That the Committee note the report.

AAG/44 **INTERNAL AUDIT STRATEGY 2020/21 AND ANNUAL PLAN**

The Council’s Chief Internal Auditor presented the Internal Audit Strategy 2020/21 and Annual Plan. The Committee noted the planned audit reviews and the outline objective for each.

There were several new areas of investigation: Capitol - Bar & catering facility; Community lottery; Jigsaw (Housing Services) computer application system audit; Ulysses (Safelink) computer application system audit.

Other Priority areas identified for inclusion in the audit plan included: Procurement; Budgetary control; Car parking income; Trade waste; Volunteers; Data in Transit; Travel and expenses.

There is an element of flexibility built into the audit plan which enables the audit team to respond to emerging risks.

RESOLVED

That the Committee approve the Council’s Audit Strategy 2020/21 and Annual Plan

AAG/45 **URGENT BUSINESS**

There was no urgent business.

AAG/46 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED

That under section 100A(2) of the Local Government Act 1972, the press and public be excluded from the meeting for the remainder of this item of business on the grounds that it involves the likely disclosure of exempt information, as detailed in Part 1 of Schedule 12A of the Act, by virtue of paragraph and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AAG/47 **HOP OAST - CULTURAL COMPLIANCE AUDIT**

The Director of Community Services presented the exempt report to the Committee.

The meeting closed at 6.46 pm having commenced at 5.30 pm

CHAIRMAN

Audit Committee
20 MAY 2020

Present: Councillors: Stuart Ritchie (Chairman), Tony Bevis, John Blackall, Paul Clarke, Ruth Fletcher and Richard Landeryou

Absent: Councillors: Jack Saheid

AAG/1 **ELECTION OF CHAIRMAN**

The Chairman of the Council, Councillor Karen Burgess, took the Chair for the election of a new Chairman for the Audit Committee. Councillor Ritchie was nominated by Councillor Blackall and seconded by Councillor Clarke. There being no other nominations, Councillor Ritchie was duly elected as Chairman of the Audit Committee for the municipal year 2020 – 21. Councillor Karen Burgess left and Councillor Ritchie took the Chair.

AAG/2 **ELECTION OF VICE CHAIRMAN**

Councillor Blackall was nominated for the position of Vice Chairman of the Audit Committee by Councillor Clarke, seconded by Councillor Landeryou. He was opposed by Councillor Fletcher who nominated Councillor Bevis for the role, seconded by Councillor Bevis. In the resulting vote, Councillor Blackall received the majority of the votes and was duly elected as Vice Chairman of the Audit Committee for the municipal year 2020/21.

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

RESOLVED

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

The meeting closed at 7.10 pm having commenced at 7.00 pm

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**Horsham District
Council**
Audit progress update
Year ended 31 March 2020

July 2020



Private and Confidential

15 July 2020

Dear Committee Members

Audit planning report update

We previously presented EY 2019/20 Audit Plan to the December 2020 Committee meeting. This paper provides an update on the status of the audit, considers the known and potential impacts of Covid-19 at this stage on the audit and provides an update on the PSAA scale fees for the audit.

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus would be expected to have a pervasive impact upon the finances of the Council. Understandably, the priority for the Council to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements will need to reflect the impact of Covid-19 on the Council's financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, we are using this update to highlight the wide range of ways in which it has or could impact the financial statements.

Therefore we are attaching a short update to our plan to be read in conjunction with the original plans submitted. Collectively these set out our updated view on how we intend to carry out our responsibilities as auditor.

This update is intended solely for the information and use of the Audit Committee and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

Andrew Brittain
Associate Partner

For and on behalf of Ernst & Young LLP

Encl



Audit Status Update

Scope update

In our audit planning report tabled at the 18 December 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Below we have highlighted the changes to that scope:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all local authority bodies.

Changes to our risk assessment as a result of Covid-19

▶ **Valuation of Property Plant and Equipment & investment property** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment and Investment Property. We reported this additional risk at the April Audit Committee .

▶ **Disclosures on Going Concern** - Financial plans for 2020/21+ will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.

▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20. We reported this change in risk at the April Audit Committee

Changes in materiality

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 £1.5m (Audit Planning Report – £1.6m). This results in updated performance materiality, at 75% of overall materiality, of £1.1m, and an updated threshold for reporting uncorrected misstatements of £74,000. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the values for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

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.

Executive Summary

Status of the audit

We have completed a substantial amount of our audit of Horsham District Council's financial statements for the year ended 31 March 2020. As noted in the section below from the work performed we have not identified any significant amendments which require your attention. However until work is complete, further amendments may arise. At the time of writing, the following remains outstanding:

- ▶ Property valuation - we instructed our valuation team (EY Real Estates) to review a sample of the Council property valuations. EY Real Estates are yet to conclude on the sample;
- ▶ Pension Fund auditors report - we instructed the auditors of West Sussex Pension Fund to perform procedures over the pension information the pension fund provided to the actuary. The procedures helps us gain sufficient assurance over Horsham District Councils net pension asset. The pension fund auditors are yet to conclude on this work;
- ▶ Going Concern Disclosure - Officers have produced an updated going concern assessment which we are currently in the process of reviewing. Once we have completed our review, we will need to complete an internal consultation processes in relation to the updated disclosure;

Page 12 Receipt of the updated actuary report following the 'McCloud' judgement and the outturn of actual asset performance at 31 March 2020

- ▶ Completion of subsequent events review;
- ▶ Review of the final statements;
- ▶ 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 would expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

There are no unadjusted audit differences arising from our audit at the time of writing this report.

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.



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01 Update on audit risks



Update on audit risks

The following 'dashboard' summarises the significant accounting and auditing matters identified as a result of Covid-19. It seeks to provide the Audit Committee with an overview of any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from 19/20 audit plan	Details
Going concern and covid-19 disclosures	Inherent risk	New risk	<p>Covid-19 has created a number of financial pressures throughout Local Government. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.</p> <p>There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.</p> <p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.</p> <p>However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.</p> <p>To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.</p>
Valuation of property, including investment properties	Significant	Increase from inherent risk to significant risk	<p>The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment and Investment Property.</p>



02

Update on audit fees





Update on audit fees

Fees

Summary of impact

We outlined in our audit plan the basis on which the scale fees are set by PSAA. We also outlined a combination of factors which mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity and therefore it endangers the sustainability of Local Audit in the future. Based on these factors, and in light of requests from PSAA to provide further detailed analysis we have estimated the impact on the Council as shown below. Note that given the timing of this exercise it does not include the impact of any specific requirements in relation to additional work in response to COVID-19. We have shared the analysis below with officers, but as noted below these amounts are subject to the approval of PSAA.

	Rationale for fee variation	Impact on HDC
Page 15 Scale fee		38,572
Changes in risk profile	As a result of macro changes in the sector and the impact on the council in terms of the risks being faced, the decisions being made and the financial reporting of those, this in turn increases audit risk, as outlined in our audit plans, and we need to extend our procedures to address these.	8,102
Changes in regulatory environment	There has been a significant increase in the focus on areas of the financial statements especially where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities. Our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and the increased use of specialists. We have also seen wider changes in the regulatory environment which all firms have needed to respond to. These include the various reviews, completed or ongoing, which all have a focus on audit quality and what is expected of external auditors. This has increased compliance and quality assurance costs which are now required for us to continue to provide services to the sector.	12,250
Revised scale fee (to be approved by PSAA)		58,924

Report to Audit Committee

15 July 2020

By the Director of Corporate Resources

DECISION REQUIRED



Not Exempt

Statement of Accounts 2019/20

Executive summary

It is a legal requirement of the Accounts and Audit (England) Regulations 2015 that the Statement of Accounts are approved by a resolution of the Council or the relevant Committee of the Council. In light of the Covid-19 epidemic, the statutory audit deadline for the 2019/20 accounts has been delayed to 30 November 2020. 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 unaudited Statement of Accounts were prepared and published by 31 May 2020 and have been subject to external audit by EY. 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:

- EY valuation team (EY Real Estates) report on the valuation of retail property significant risk
- EY pensions audit team – additional procedures on the triennial valuation and West Sussex Pension Fund audit report
- EY professional practice department internal consultation process on going concern disclosures

Recommendations

That the Committee is recommended:

- i) To approve the 2019/20 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 completed before 30 November 2020.

Reasons for recommendations

- i) It is a requirement of the Accounts and Audit (England) Regulations 2015 that the Statement of Accounts are approved by 30 November 2020.

Background papers: None

Wards affected: All

Contact: Samantha 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. In light of the Covid-19 epidemic, the statutory audit deadline for the 2019/20 accounts has been delayed to 30 November 2020. 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 2019/20 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 four misstatements that were greater than trivial. The audit results report sets out the significant issues and findings to bring to your attention. All four misstatement have been adjusted for. A number of other presentational inconsistencies have also been amended.
- 3.2 At the time of the report, three outstanding issues need to be resolved before the accounts can be approved: This covering report sets out the actions being undertaken by officers and the audit team to resolve these issues.
 - EY valuation team (EY Real Estates) report on the valuation of retail property significant risk
 - EY pensions audit team – additional procedures on the triennial valuation and West Sussex Pension Fund audit report
 - EY professional practice department internal consultation process on going concern disclosures.A substantial going concern note has been added at Note 32 in the statements.

4 Next steps

- 4.1 The committee is asked to approve the Statement of Accounts 2019/20, 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 outstanding issues on 6 July 2020.

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 30 November 2020.

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 2019/20

Unaudited

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Narrative Statement

INTRODUCTION

Welcome to Horsham District Council's Statement of Accounts for 2019/20. 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 2019 to 31 March 2020 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 Covid-19 and 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 2019/20.

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.

In addition to 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 good position to withstand the financial challenges it faces in the future, including the more immediate impact of Covid-19.

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 48 elected Councillors.

The 2019-2023 Corporate Plan identifies key priorities that have been grouped and presented under five broad headings which cover the economic, environmental, social and organisational responsibilities.

<https://www.horsham.gov.uk/council-democracy-and-elections/finance-and-council-performance/corporate-plan>

- A great place to live - creating well balanced communities that meet residents' needs
- A thriving economy - increasing economic growth and create new local jobs
- A strong, safe and healthy community - ensuring Horsham District remains one of the best places in Sussex to live
- A cared-for environment - prioritising the protection of our environment as we move to a low-carbon future
- A modern and flexible Council – making it easy for our residents to access the services that they need

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 2019/20

The Council monitors financial and non-financial performance indicators on a monthly basis. It measures and publishes its performance using a set of 30 key performance indicators which cover many of the Council's key services. The final

performance figures for the 2019/20 year are reported to Overview and Scrutiny Committee in July. The Council also reviews delivery of the Corporate Plan objectives at this meeting. The new corporate plan was introduced in January 2020 and a review of KPIs is taking place to ensure we are supporting the new corporate plan. There has been a high level of achievement in the Corporate Plan for the 2019/20 period.

These indicators show positive performance across most areas, with all the indicators at or close to target. A greater number of residents are using self-service methods and making payments online. An improvement in the deployment of customer services staff at key times has lowered the number of abandoned customer contact centre calls during the year towards the target. Falling visitor numbers at the Capitol, the Museum and Leisure centres reflect the impact of Covid-19 in March 2020, although the impact is likely to be much greater in 2020/21.

Employees

The number of permanent employees was 387.7 FTE at 31 March 2020 (385.6 at 31 March 2019). There were 6.45 sickness days per FTE employees (6.5 days at 31 March 2019) and remains below the 7 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 £111.93m 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 98.53% of the total amount due which was almost the same as 2018/19 (98.57%) and remains slightly under the unchanged target of 98.8%, with the aim of collecting the majority of the remainder in the first few months of 2020/21.

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 2020. A total of £2.12m (£2.11m in 2018/19) has been allowed against debts of £3.48m (£3.4m in 2018/19) outstanding as at 31 March 2020. The Council's share of the allowance is £252k (£254k in 2018/19).

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 2020. A total of £1.01m (£1.29m in 2018/19) has been allowed against debts of £2.940m (£2.51m in 2018/19) outstanding as at 31 March 2020. The Council's share of the allowance is £202k (£517k in 2018/19).

In 2019/20 there has been £0.819m of uncollectable amounts written off (£0.751m in 2018/19).

A provision for appeals made against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2020 has been made of £5.51m (£6.23m in 2018/19). The Council's share (20%) is £1.12m (£2.49m at 40% in 2018/19), as detailed in the Provisions note 18.

BUDGET 2019/20

In 2019/20, the total expenditure incurred by the Council was £69.9m; 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 2019/20 of £11.2m at the formal meeting on 13 February 2019.

	£000
Net expenditure	10,435
Funded by:	
Council Tax	(9,598)
Revenue Support Grant	0
Business Rates baseline funding	(2,029)
Collection fund surplus	(227)
Total funding	<u>(11,854)</u>
Surplus	(1,419)

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 2019/20, 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 2020 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 2019/20

The Council monitors its expenditure and income against budget on a monthly basis, regularly reporting to Cabinet and to Overview and Scrutiny (O&S) Committee on a quarterly basis. The 2019/20 year-end revenue and capital outturn is reported to O&S Committee in June.

The variance against original budget was reported as a surplus of £0.246m. Revenue budgets of £0.165m, intended for projects in 2019/20, were unspent and carried forward to 2020/21. 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 £1.433m as shown below.

	£000
Outturn variance reported	(246)
Budgets brought forward from 2018/19 (including repairs and renewals)	201
Budgets carried forward to 2020/21	(165)
Underspend of MRP against budget	6
Other adjustments	<u>(1,229)</u>
Surplus on General Fund (after transfers to earmarked reserves)	(1,433)

The General Fund shows a net surplus of £1.433m on expenditure and income transactions in the year. The Comprehensive Income and Expenditure Statement shows a surplus for the year of £32.235m, comprising a surplus on the provision of services of £3.943m and a surplus of £28.292m 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 £1.433m 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 £2.339m is a charge for the use of assets that reflects the notional consumption of assets during the year and gains of £0.685m have been credited on the revaluation of assets.
- ii) **A charge for revenue expenditure funded from capital under statute (REFCUS).** A charge of £1.752m 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 £4.649m 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 £2.965m representing the difference between the accounting cost of pensions of £5.528m (as estimated by the Pension Fund actuary in accordance with IAS19) and the actual employer contributions of £2.563m 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 £1.294m. 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 2019/20 the amount set aside was £0.844m (2018/19 £0.870m). 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	(1,433)
Transfers (to) / from earmarked reserves	(5,130)
Accounting adjustments	
Charge for depreciation	2,339
Revaluation of non-current assets	685
Revenue expenditure charged to capital	1,752
Capital grant income	(4,649)
IAS19 pension costs	2,965
(Gain) / loss on disposal of assets	(1,294)
Minimum Revenue Provision	(844)
Share of in year surplus on the Collection Fund	(45)
Other technical adjustments	1,711
Surplus on provision of services per CIES	(3,943)

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 £21.7m in 2019/20, the Council's capital spending for the year was £9.8m across a range of 60 capital schemes. The majority was spent in the following four key areas:

- £4.4m 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
- £1.5m on disabled facilities using Government grant funding to help disabled residents live in their homes.
- £1.5m on building temporary accommodation
- £0.6m property investment to generate a revenue return

Four large schemes did not move forward at the expected rate during the year, accounting for £6.7m of the underspend. This included £2.3m on commercial investment property as suitable property was not identified, £2m on a running track, £1.2m on the Highwood community centre and £1.2m in housing enabling grants to Registered Providers. Where projects are continuing, the unspent capital budget has been re-profiled into 2020/21 and later years.

Where not re-profiled, unspent budgets are removed from the capital programme, as the original schemes are either superseded or no longer needed. The £2m budget for the running track has been removed from the capital programme.

FINANCIAL POSITION AT 31 MARCH 2020

The net worth of the District Council is shown in the Balance Sheet. It has increased by £32.2m from 31 March 2019.

Property, Plant and Equipment value has increased by £3.1m to £112.1m. Investment Property value has also risen by £3.6m to £54.5m due to £1.5m in net gains from fair value adjustments as well as £2.1m additions in year.

The net pension asset increased by £23.2m from a net pension surplus of £2.96m at 31 March 2019 to a net pension surplus of £26.16m at 31 March 2019, reflecting changes in the financial assumptions used by the Actuary and fluctuations in the values of assets and liabilities and the 're-calibration' from the full formal valuations in 2016 and 2019.

This position is a snapshot of the actuarial assessment at the Balance Sheet date and does not mean that the pension fund will remain in surplus in the future. Asset values of the fund can decrease and the liabilities can also significantly increase in the future.

A full triennial valuation of the Fund was undertaken at 31 March 2019 and revised employer contribution rates have been agreed for the three years from 1 April 2020. The contribution rate was 20.5% in 2019/20, but a gradual reduction is planned that would result in a contribution rate of 18% in 2022/23, assuming the fund remains in surplus. 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 capital and revenue Reserves increased by £4.45m to £37.9m during 2019/20. The Council's level of General Reserves held at 31 March 2020 stands at £15.7m. Given our intention to become financially independent in the medium term, our reserves will enable us to invest in transformation as well as mitigate against the financial uncertainty following the outbreak of Covid-19 in March 2020. 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 repaid the £4m PWLB loan on Monday 1 April 2019. The Council does not have any borrowing.

FINANCIAL OUTLOOK INCLUDING STRATEGY AND RESOURCE ALLOCATION INCLUDING IMPACT OF COVID-19

The World Health Organisation declared a global pandemic of the COVID-19 virus on 11 March 2020. The subsequent lockdown and associated recession is having a severe impact on the lives of our residents and businesses. The Council has taken emergency action at considerable speed. Whilst the effect on income and expenditure in 2019/20 is limited to the last month in the financial year, the longer term effects will be seen in 2020/21 and beyond.

The Council, in partnership with existing and new organisations, volunteer and social media groups, established 27 Community Volunteer Hubs across the District to help co-ordinate the community response to Covid-19. Employees from areas that had to close such as the museum, parks and the Capitol have been redeployed to help these front-line efforts.

The Council's technology strategy of cloud based solutions meant that it was quickly able to adapt to stay at home working. The property team are exploring how the existing office space can be adapted to accommodate the post lockdown period, and then transition to a new permanent way of working in the future. The move to stay at home working mitigated the risk of whole teams falling ill and so far, sickness levels have not changed and have not had an impact on services. The Council is also working with suppliers and supply chains, especially in areas where essential suppliers might be more prone to failure.

Operationally, the impact has fallen heavily on Revenues and Benefits, from increased benefit claims and the application of the measures announced by The Chancellor to support businesses through small business grant funding, retail discounts, pub and nursery rate reliefs.

Income has fallen across many services. Free parking was put in place to alleviate congestion and help key workers. Deferral of rents, reduced demand in building control, planning, business waste and all leisure services has caused income in these areas to plummet, whilst additional expenditure, supporting the homeless and vulnerable for example, has increased. Income may never return to the previous levels. The Government grant of £1.5m received to the end of May 2020 has so far largely negated the early impact but is not enough to cover the Council's losses in the year 2020/21.

At 31 March 2020, the Council has £15.7m of general fund reserves and £9.5m of earmarked reserves including £4.7m in New Homes Bonus. It is expected the 2019/20 outturn surplus of £0.246m will be used to top up the transformation fund back up to £0.5m providing funds to drive transformational changes in the future. The Council is also due to receive £4.8m in New Homes Bonus during 2020/21 which is not ring-fenced, nor presently taken into the revenue budget.

Initial analysis of projected income loss and increased expenditure indicates that, should the situation remain critical throughout 2020, the impact could be up to £8m overspend on the 2020/21 budget before Government grants. This could be funded by reserves in the short term during 2020/21, but any continued impact beyond this would clearly not be sustainable.

To mitigate against this, Council is reviewing whether it can deliver the services as set out in the current budget and the impact on planned efficiency savings and transformation. The Council will continue to harness the digital opportunities to better meet customer expectations and needs and also reduce the re-keying of data. Transformation will help protect the level of general fund reserves with an aim to keep them above the £6m minimum level of general reserves that Members agreed upon in 2012.

Measuring the impairments attributable to Covid-19 will be complex and difficult. The values at 31 March 2020 are just a snapshot in time and the value of the asset base, investment assets and pension fund assets continue to fluctuate. The only

certainty is the new uncertainty and planning for this, both in the short term and the medium term. The planned capital programme in 2020/21 is also being revisited to identify any likely slippage and re-prioritisation.

The significant risk is that the Council will not be able to return to previous levels of income if consumer habits are permanently changed. Greater detailed budget monitoring and forecasting will be key to understanding 2020/21 in more detail as it happens, especially as events outside the Council's control play out. Early identification of issues will help the Council take action to further mitigate overspends and reduce the impact on cash flows. At the same time it is possible that the impact Covid-19 will see changes to the future provision of services if social distancing becomes semi-permanent.

However, as the resilience of the community has already shown, combined with the Council's desire to support the local community in its recovery, and as long as we hold true to the key principles of public finance, the Council will rise to these challenges as it always has done in the past and provide a public service offering that is progressive and modern.

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. An updated Medium Term Financial Strategy is planned for the 23 July 2020 Cabinet meeting, updating assumptions for the impact of Covid-19 and other changes.

The Council's cash flow remains healthy. At the current year-end, the Council has £6.3m of cash and cash equivalents. The value of treasury investments including those classified as cash and cash equivalents ended the year at £39.2m.

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 2019/20 or planned to complete over the next twelve months:

- Piries Place Car Park: the £8m replacement car park opened during September 2019, creating 200 additional spaces in the town centre.
- Temporary accommodation: the Council has spent nearly £3m on two sites in Billingshurst and Horsham that are providing 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. The second of these facilities will open in 2020.
- Oakhurst phase IV: a £2.2m development of Oakhurst business park using the commercial property investment fund.
- Highwood community centre: work on the £2m facility is due to commence in 2020.

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:

- significant economic uncertainty from world events, including Covid-19, or Britain's exit from the European Union.
- income may be significantly affected by external factors such as recession.
- 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.
- further or steeper funding cuts / to help government meet their financial targets especially beyond the current settlement period (2021).
- 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 4 June 2020 to 15 July 2020. 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 2019/20 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 2020.

Jane Eaton C.P.F.A.
Director of Corporate Resources
xx July 2020

APPROVAL OF THE ACCOUNTS

I hereby certify that the Statement of Accounts 2019/20 have been approved by the Council's Audit Committee under delegated powers at a meeting held on xx July 2020

Councillor Stuart Ritchie
Chairman of the Audit Committee

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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 2018	(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	
(Surplus) or deficit on provision of services	(6,323)	0	0	(6,323)	0	(6,323)	7
Other Comprehensive Expenditure and Income	0	0	0	0	3,136	3,136	
Total Comprehensive Expenditure and Income	(6,323)	0	0	(6,323)	3,143	(3,180)	
Adjustments between accounting basis & funding basis under regulations (restated)	4,241	(294)	(2,694)	1,254	(1,254)	0	7,11
Increase/Decrease (movement) in Year	(2,081)	(294)	(2,694)	(5,069)	1,889	(3,180)	
Balance at 31 March 2018 carried forward	(23,003)	(1,327)	(9,145)	(33,475)	(129,718)	(163,193)	
Movement in reserves during 2019/20:							
(Surplus) or deficit on provision of services	(3,943)	0	0	(3,943)	0	(3,943)	7
Other Comprehensive Expenditure and Income	0	0	0	0	(28,293)	(28,293)	
Total Comprehensive Expenditure and Income	(3,943)	0	0	(3,943)	(28,293)	(32,236)	
Adjustments between accounting basis & funding basis under regulations	1,755	(761)	(1,501)	(507)	507	0	7,11
Increase/Decrease (movement) in Year	(2,188)	(761)	(1,501)	(4,450)	(27,786)	(32,236)	
Balance at 31 March 2020 carried forward	(25,191)	(2,088)	(10,646)	(37,925)	(158,148)	(195,429)	

Comprehensive Income and Expenditure Statement

Restated 2018/19			2019/20				
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Note
£000	£000	£000		£000	£000	£000	
3,306	(63)	3,243	Audit, Finance HR & Commissioning	2,526	(137)	2,389	
12,315	(3,519)	8,795	Leisure & Culture	6,689	(4,118)	2,571	
1,326	(17)	1,309	Corporate Management	1,407	(18)	1,389	
416	(11)	405	Customer Services	531	(12)	519	
3,227	(1,702)	1,525	Housing & Community Services	4,644	(2,095)	2,549	
1,935	(1)	1,934	ICT	1,886	(10)	1,876	
1,665	(167)	1,498	Legal and Democratic Services & Elections	2,141	(114)	2,027	
3,690	(4,713)	(1,023)	Parking	4,421	(4,980)	(559)	
4,910	(3,259)	1,651	Planning & Economic Development	5,938	(3,479)	2,458	
1,766	(195)	1,571	Property & Facilities	1,851	(233)	1,618	
10,834	(4,856)	5,978	Refuse, Cleansing & Environmental Services	10,989	(5,146)	5,843	
31,201	(30,726)	475	Revenues & Benefits	27,926	(27,593)	333	
76,591	(49,229)	27,362	Cost of Services	70,948	(47,935)	23,013	7
		2,011	Other operating expenditure			2,305	8
		(8,763)	Financing and investment income and expenditure			(4,358)	9
		<u>(26,932)</u>	Taxation and non-specific grant income			<u>(24,903)</u>	10
		(6,323)	(Surplus) or deficit on provision of services			(3,943)	7
			Items that will not be classified to the (Surplus) or deficit on the Provision of Services				
		(1,551)	Surplus or deficit on revaluation of Property, Plant and Equipment assets			(2,171)	
		4,687	Actuarial (gains)/losses on pensions assets			(26,162)	30
		<u>0</u>	Surplus or deficit on revaluation of financial assets			<u>40</u>	
		3,136	Other Comprehensive Income and Expenditure			(28,293)	
		<u>(3,187)</u>	Total Comprehensive Income and Expenditure			<u>(32,236)</u>	

The figures above the line for 'Net Cost of Services' have been restated for the 2018-19 comparator year to reflect the Council's revised portfolio structure between Leisure & Culture and Housing & Community Services (previously Community & Culture and Housing Services) Notes 7 and 7a also reflect this revised portfolio structure

Balance Sheet

<u>31.03.2019</u>		<u>31.03.2020</u>	Note
£000		£000	
	NON-CURRENT ASSETS		
	Property, Plant and Equipment		
99,144	- Other Land and Buildings	108,815	12
3,775	- Vehicles, Plant, Furniture & Equipment	3,369	12
6,098	- Assets under construction/Awaiting Development	5	12
531	Heritage Assets	531	
50,909	Investment Property	54,466	13
30	Intangible Assets	19	
350	Assets Held for Sale	636	
2,961	Pension Asset	26,158	30
259	Long-term Debtors	221	
16,747	Long-term Investments	19,621	14
180,804	TOTAL LONG-TERM ASSETS	213,945	
13,381	Short - term Investments	13,247	14
139	Inventories	87	
5,939	Short -term Debtors	4,392	16
5,297	Cash and Cash Equivalents	6,288	15
24,756	CURRENT ASSETS	24,014	
(4,000)	Short-term borrowing	0	14
(11,672)	Short-term Creditors	(14,520)	17
(15,672)	CURRENT LIABILITIES	(14,520)	
(161)	Provisions	(158)	18
(2,493)	Provision for Business Rates Appeals	(1,121)	18
(236)	Council tax and NDR appropriations	(300)	
(8,737)	Long-term liabilities - S106 Contribution	(12,106)	18
(239)	CIL Contribution	(506)	
(792)	Rent Deposits and Other Balances	(930)	
(14,037)	Capital Grants & Receipts in Advance	(12,785)	18
(26,695)	LONG-TERM LIABILITIES	(27,906)	
163,193	NET ASSETS	195,429	
	Usable Reserves		
(23,003)	- Reserves	(25,191)	19
(1,327)	- Capital Receipts Reserve	(2,088)	19
(9,145)	- Capital Grants & Contributions Unapplied	(10,646)	19
	Unusable Reserves		
(34,516)	- Revaluation Reserve	(35,833)	20
(2,961)	- Pensions Reserve	(26,158)	20,30
(93,380)	- Capital Adjustment Account	(98,354)	20
146	- Pooled Fund Adjustment Account	1,855	
0	- Financial Instrument Revaluation Reserve	40	
832	- Collection Fund Adjustment Account	788	20
161	- Accumulating Absences Adjustment Account	158	
(163,193)	TOTAL RESERVES	(195,429)	

Cash Flow Statement

<u>2018/19</u>		<u>2019/20</u>	<u>Note</u>
£000		£000	
	<u>Operating activities</u>		
(6,323)	(Surplus) or deficit on provision of services	(3,943)	7
(1,568)	Adjust net surplus or deficit on the provision of services for non- cash movements	(5,802)	21
7,669	Adjust for items in the net deficit on the provision of services that are investing or financing activities	6,129	21
(222)	Net cash flows from Operating activities	(3,616)	
	<u>Investing activities</u>		
12,695	Purchase of property, plant and equipment, investment property and intangible assets	8,230	
10,950	Purchase of short-term and long-term investments	67,000	
387	Other payments for investing activities	396	
(171)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,212)	
(12,781)	Proceeds from short-term and long-term investments	(64,220)	
(10,772)	Other receipts from investing activities	(10,709)	
308	Net cash flows from investing activities	(516)	
	<u>Financing Activities</u>		
154	Other receipts from financing activities	(860)	
0	Other payments for financing activities	4,000	
154	Net cash flows from financing activities	3,140	
240	Net (increase) or decrease in cash and cash equivalents	(991)	
5,537	Cash and cash equivalents at 1 April	5,297	15
5,297	Cash and cash equivalents at 31 March	6,288	15

Notes to the Core Statements

1 ACCOUNTING POLICIES

GENERAL PRINCIPLES

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

- The qualitative characteristics of financial information
- Relevance
- Reliability
- Comparability
- Understand ability
- Materiality
- Accruals
- Going concern

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

ACCRUALS OF EXPENDITURE AND INCOME

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code. Any sums due to or payable by the Council at the end of each financial year that exceed £5,000 either individually, or as a class of expenditure are brought into account (irrespective of whether cash has been received or payment has been made). The exception to the £5,000 limit exists where the expenditure or part of it is to be recharged to a third party. Where a service is provided for a full year a full year's costs/income is reflected in the accounts. If any service is only provided for a proportion of the year a relevant proportion is included. If actual costs are not available accruals are made, in accordance with officer guidelines, on a best estimate basis.

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

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

Council tax income is accounted for on an accrual basis with the Horsham District Council share of income included within the debtors and creditors balances on the Balance Sheet, with the preceding authorities' accounting for their relevant share.

CASH AND CASH EQUIVALENTS

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

EXCEPTIONAL ITEMS

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

PRIOR PERIOD ADJUSTMENTS

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

Changes in accounting policies are only made where required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the

Council's financial position or financial performance. When a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material error discovered in prior periods figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

CHARGES TO REVENUE RELATED TO NON-CURRENT ASSETS

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

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

MINIMUM REVENUE PROVISION

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

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

EMPLOYEE BENEFITS

Officers Emoluments and Senior Officer Remuneration

In line with the Accounts and Audit Regulations 2015, a note disclosing officers' emoluments is required which includes all amounts paid to or receivable by an employee, including sums due by way of expenses allowances and the estimated money value of any other benefits received by an employee other than in cash.

There is also a requirement that local authorities include remuneration information of senior employees in the note accompanying their statement of accounts with previous year comparatives. This information is found in note 25.

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

These assets are treated as Financial Assets Measured at Fair Value through Profit of Loss in terms of valuations but any gains and losses are taken to the Financial Instrument Revaluation Reserve rather than the Surplus or Deficit on the Provision of Services. Any gains and losses that arise on the de-recognition of the asset are credited or debited to the General Fund through the Movement in reserves Statement. The only relevant asset is the Fundamentum REIT which is an equity instrument which the Council has elected to treat in this category.

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 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 2019/20 (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 2019/20 Statement of Accounts there are a number of accounting changes that need to be reported. These relate to:

- Annual Improvements to IFRS Standards 2015-17 cycle
- Amendments to IAS19 Employee Benefits: Plan Amendment, Curtailment or Settlement

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. Adoption has been postponed until at least the 2021/22 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 and income are uncertain. However based on the current level of reserves and 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 in the short term.
- The Council holds a significant portfolio of investment property and although general economic activity is 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 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 5% of the Council spending baseline which equates to £101k.

Assumptions

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made 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 2020 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.

Furthermore, the actuary has also estimated an impact for the implications of the 2014 transitional arrangement protection which the Court of appeal ruled as unlawful in June 2019. Wider explanation of this issue, more commonly known as 'McCloud', is detailed in Note 30.

During 2019/20 the actuaries advised that the pension liability had been affected as follows:

<u>Change in assumptions year ended 31 March 2020</u>	Approximate % increase to Employer	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	9%	12,837
1 year increase in member life expectancy	3% to 5%	5,792
0.5% increase in Salary Increase Rate	1%	983
0.5% increase in the Pension Increase Rate	8%	11,767

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 £303k.

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 £0.033m.

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 £5.6m as an estimate of potential successful appeals up to 31 March 2020, the Council's proportion (20%) reflected in the Balance Sheet is £1.12m. This estimate is calculated using Valuation Office ratings list of appeals an analysis of successful appeals to date for 2010 list and the percentage built into the multiplier by MHCLG for the 2017 list

4 PRIOR PERIOD ADJUSTMENTS

During the year the Council revised its portfolio structure between Leisure & Culture and Housing & Community Services (previously Community & Culture and Housing Services). The Comprehensive Income and Expenditure Statement and Notes 7 and 7a also reflect this revised portfolio structure

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 2018/19 or 2019/20 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 xx July 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and 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	Restated 2018/19			2019/20		
	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	1,734	3,243	Audit, Finance, HR & Commissioning	1,211	1,177	2,389
1,479	7,317	8,795	Leisure & Culture	1,768	804	2,572
1,167	142	1,309	Corporate Management	1,591	(202)	1,389
365	40	405	Customer Services	455	64	519
1,322	204	1,526	Housing & Community Services	962	1,588	2,549
1,549	384	1,934	ICT	1,711	165	1,878
1,488	10	1,498	Legal and Democratic Services & Elections	1,334	691	2,026
(2,660)	1,638	(1,023)	Parking	(2,576)	2,017	(559)
1,330	321	1,651	Planning & Economic Development	1,823	635	2,458
(2,489)	4,060	1,571	Property & Facilities	(2,316)	3,934	1,618
3,131	2,846	5,978	Refuse, Cleansing & Environmental Services	2,908	2,933	5,841

973	(498)	475	Revenues & Benefits	612	(279)	332
9,164	18,198	27,362	Net cost of services	9,484	13,529	23,013
(11,245)	(22,440)	(33,685)	Other income and expenditure	(11,673)	(15,283)	(26,956)
(2,081)	(4,242)	(6,323)	Surplus or deficit	(2,187)	(1,754)	(3,943)
(20,922)			Opening General Fund Balance 31 March 2019	(23,003)		
(2,081)			Less Surplus on General Fund in Year	(2,187)		
(23,003)			Closing General Fund Balance	(25,189)		

7a ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS

2019/20

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	159	889	129	1,177
Leisure & Culture	606	315	0	(116)	804
Corporate Management	0	199	0	(401)	(202)
Customer Services	0	63	0	1	64
Housing Services	1,169	311	0	108	1,588
ICT	23	142	0	0	165
Legal and Democratic Services & Elections	0	143	0	548	691
Parking	2,031	113	0	(127)	2,017
Planning & Economic Development	73	618	0	(55)	635
Property & Facilities	(1,311)	86	0	5,159	3,934
Refuse, Cleansing & Environmental Services	2,186	852	0	(105)	2,933
Revenues & Benefits	0	0	0	(279)	(279)
Other income and expenditure from the Funding Analysis	(6,787)	(35)	(889)	(7,572)	(15,283)
Difference between General Fund (Surplus) or deficit and Comprehensive Income and Expenditure (surplus) or deficit on the provision of services	(2,010)	2,965	0	(2,710)	(1,756)

Restated 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	948	747	39	1,734
Leisure & Culture	6,743	189	0	385	7,317
Corporate Management	0	141	0	1	142
Customer Services	0	40	0	0	40

Housing Services	391	203	0	(390)	204
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	2,226	615	0	5	2,846
Revenues & Benefits	0	0	0	(498)	(498)
Other income and expenditure from the Funding Analysis	(8,358)	(239)		(13,842)	(22,440)
Difference between General Fund (Surplus) or deficit and Comprehensive Income and Expenditure (surplus) or deficit on the provision of services	(759)	2,665	747	(6,895)	(4,242)

8 OTHER OPERATING EXPENDITURE

	2018/19	2019/20
	£000	£000
Parish council precepts	3,224	3,600
(Gains)/losses on the disposal of non-current assets	<u>(1,213)</u>	<u>(1,295)</u>
Total	<u>2,011</u>	<u>2,305</u>

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2018/19	2019/20
	£000	£000
Interest payable and similar charges	135	1
Net interest cost on LGPS Pension	(239)	(35)
Interest receivable and similar income	(1,031)	(889)
Income and expenditure in relation to investment properties and changes in their fair value (as detailed in note 13)	(7,628)	(5,149)
Changes in fair value of investments	<u>0</u>	<u>1,714</u>
Total	<u>(8,763)</u>	<u>(4,358)</u>

10 TAXATION AND GRANT INCOME

	2018/19	2019/20
	£000	£000
Benefits Grants	(29,026)	(26,021)
Other Government Grants	(1,077)	(1,150)
Other Grants	<u>(421)</u>	<u>(939)</u>
Grants credited to Services	<u>(30,524)</u>	<u>(28,110)</u>
Council Tax	(12,470)	(13,264)
Non Domestic Rates income & expenditure	(1,153)	(1,073)
New Homes Bonus	(4,827)	(4,807)
Section 31 Grant – Business Rates Reliefs	(2,113)	(1,110)
Other Government Grants	(106)	0
Capital grants and contributions	<u>(6,264)</u>	<u>(4,649)</u>
Credited to Taxation and Non Specific Grant Income	<u>(26,932)</u>	<u>(24,903)</u>

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.

2019/20	General Fund Balance £000	Usable Reserves Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation of non-current assets	(2,339)			2,339
Impairment on Property, Plant and Equipment	(2,139)			2,139
Movements in the market value of Investment Properties	1,453			(1,453)
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	(373)			373
Revenue expenditure funded from capital under statute	(1,752)			1,752
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	844			(844)
Capital expenditure financed from revenue balances	4,376			(4,376)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	4,649		(1,501)	(3,148)
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	1,667	(1,695)		27
Use of the Capital Receipts Reserve to finance new capital expenditure		934		(934)
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Gain/loss on revaluation of Financial Instruments Adjustment Account	(1,714)			1,714
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,528)			5,528
Employers pension contributions and direct payments to pensioners payable in the year	2,563			(2,563)
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	45			(45)
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	3			(3)
Total Adjustments	1,755	(761)	(1,501)	507

2018/19

	General Fund Balance	Usable Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation of non-current assets	(2,399)			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
Gain/loss on revaluation of Financial Instruments Adjustment Account	148			(148)
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,147)			5,147
Employers pension contributions and direct payments to pensioners payable in the year	2,482			(2,482)
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	4,241	(294)	(2,694)	(1,253)

12 PROPERTY, PLANT & EQUIPMENT

Movements in 2019/20	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant & Equipment
Cost or Valuation	£000	£000	£000	£000
At 1 April 2019	99,521	7,936	6,137	113,594
Additions	5,558	570	6	6,134
Reclassifications	5,802		(6,134)	(332)
Revaluation increase/(decreases) recognised in the Revaluation Reserve	1,890			1,890
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,144)		(4)	(2,148)
De-recognition – disposal	(50)			(50)
Other movements in cost or valuation	(942)			(942)
At 31 March 2020	109,635	8,506	5	118,251
Accumulated Depreciation and Impairment				
At 1 April 2019	(416)	(4,161)	0	(4,577)
Depreciation charge	(1,347)	(976)		(2,323)
Written out to the Revaluation Reserve	620			620
Written out to the Surplus/Deficit on the Provision of Services	322			322
Other movements				
At 31 March 2020	(821)	(5,137)	0	(5,958)
Net Book Value				
At 31 March 2020	108,814	3,369	5	112,293
At 31 March 2019	99,105	3,775	6,137	109,017
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	99,105	3,775	6,137	109,017
At 31 March 2018	94,808	4,329	5,975	105,112

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

Two assets held valued at £0.636m (31 March 2019 three assets £0.350m).

Capital Commitments

At 31 March 2020, the Council was committed to the following significant capital works contracts (£4.8m in 2019):

Capital scheme	£000
Warnham Discovery Hub	238
Land at Oakhurst Business Park - Phase 4	1,583
Park House Improvements	106
Capitol - Projector	95
Total	2,022

Effects of Changes in Estimates

Revaluations

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

	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Total £000
Carried at historical cost		3,369	3,369
Valued at fair value as at			
31 March 2020	73,783		73,783
31 March 2019	17,128		17,128
31 March 2018	10,839		10,839
31 March 2017	3,694		3,694
31 March 2016	3,371		3,371
	108,815	3,369	112,184

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 £000	2019/20 £000
Income from investment property	(4,402)	(4,150)
Direct operating expenses arising from investment property	536	454
Net (gains)/losses from fair value adjustments	(3,762)	(1,453)
Net (gain)/loss	(7,628)	(5,149)

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 £000	2019/20 £000
Balance at start of year	46,600	50,909
Additions	541	2,100
Net gains/(losses) from fair value adjustments	3,766	1,457
Transfers	2	0
Balance at end of the year	50,909	54,466

14 FINANCIAL INSTRUMENTS

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 instruments are recognised in the Balance Sheet when the authority becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets are classified into one of three categories dependent on both:

- the reason the authority is holding the asset (e.g. to collect the contractual cash flows until maturity and / or to sell before maturity); and
- the nature of the asset's contractual cash flows (e.g. just principal and interest or something more complicated).

Reason for holding the asset	Nature of the contractual cash flows	Classification category
Holding assets in order to collect contractual cashflows	Solely payments of principal and interest	Amortised Cost
Holding assets in order to collect contractual cashflows as well as selling the assets	Solely payments of principal and interest	Fair value through other comprehensive income
Holding assets that do not fall into either of the above categories	Not solely payments of principal and interest	Fair value through profit and loss

Amortised cost category covers bank accounts, fixed term deposits, loans to local authorities, loans for service purposes, lease receivable and trade receivables.

Fair value through other comprehensive income covers one equity investment of £2m in the listed Fundamentum REIT made in 2019/20. It was valued at £1.96m at year end with no dividends yet recognised

Fair value through profit and loss comprises money market funds, mostly held for cash flow reasons and pooled bond, equity and property funds held for the longer term.

As an exception to the above, at initial recognition an authority may make an irrevocable election to present changes in the fair value of investments in equity instruments through other comprehensive income rather than through profit and loss. This is dependent on these investments being held for strategic rather than trading purposes. Such investments are then classified as Fair value through other comprehensive income. This is the case with the Fundamentum REIT.

All financial assets are initially measured at fair value and recognised on the balance sheet. How the financial assets are subsequently measured, and how unrealised gains or losses are shown in the accounts is dependent on what category the asset has been classified as.

Classification category	Subsequent measurement basis	Presentation of unrealised gains and losses
Amortised cost	Amortised cost	A disclosure note
Fair Value through Other Comprehensive Income (FVOCI)	Fair Value	The 'Other comprehensive income' section of the Comprehensive Income & Expenditure Statement (CIES)
Fair Value through Profit & Loss (FVPL)	Fair Value	The 'Financing and investment income & expenditure' section of the CIES.

A financial asset is derecognised from the Balance Sheet when the contractual rights to the cash flows expire, or the financial asset is transferred.

Interest or dividends are credited to the Financing and Investment Income and Expenditure line in the CIES. Dividends are credited when they become receivable by the authority. Interest income is credited based on the amortised cost of the asset multiplied by its effective interest rate.

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 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 comprise trade payables for goods and services received.

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	31.03.2020	31.03.2019	31.03.2020
	£000	£000	£000	£000
Loans at amortised cost:				
- PWLB borrowing	0	0	(4,067)	0
Total Borrowing	0	0	(4,067)	0
Liabilities at amortised cost:				
- Trade payables	0	0	(12,426)	(18,898)
Included in Creditors *	0	0	(12,426)	(18,898)
Total Financial Liabilities	0	0	(16,493)	(18,898)

* The various liabilities lines on the Balance Sheet include **£8.6m** (2019: £8.9m) 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	31.03.2020	31.03.2019	31.03.2020
	£000	£000	£000	£000
<i>At amortised cost:</i>				
- Principal incl accruals	0	0	4,014	4,003
<i>At fair value through profit & loss:</i>				
- Fair value	16,747	17,661	9,367	9,244
<i>Fair value through other comprehensive income</i>				
- Fair value		1,960		
Total Investments *	16,747	19,621	13,381	13,247
<i>At amortised cost:</i>				
- Principal incl accruals	0	0	1,294	789
<i>At fair value through profit & loss:</i>				
- Fair value	0	0	4,003	5,499
Total Cash and Cash Equivalents	0	0	5,297	6,288
<i>At amortised cost:</i>				
- Receivables			3,372	3,220
- Loans made for service purposes	248	214		
- Loss allowance	(7)	(6)	(233)	(417)
Included in Debtors **	241	208	3,139	2,803
Total Financial Assets	16,988	19,829	21,817	22,338

* The total short-term investments includes £0.002m (2019: £0.006m) representing accrued interest

** The debtors lines on the Balance Sheet include £1.9m (2019: £2.8m) short-term debtors that do not meet the definition of a financial asset as they relate to non-exchange transactions.

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
-----------------------	------------------

	Amortised Cost £000	Amortised Cost £000	Fair Value through OCI £000	Fair Value through Profit & Loss £000	2019/20 Total £000	2018/19 Total £000
Interest expense					0	135
Impairment Loss		189			189	4
Changes in fair value				1,709	1,709	0
Interest payable and similar charges	0	189	0	1,709	1,898	139
Interest income		(39)			(39)	(96)
Dividend income				(839)	(839)	(790)
Gains from changes in fair value					0	(149)
Impairment loss reversals						(1)
Interest and investment income	0	(39)	0	(839)	(879)	(1,036)
Net impact on surplus/deficit on provision of services	0	149	0	869	1,019	(897)
Losses on revaluation			40		40	0
Impact on other comprehensive income	0	0	40	0	40	0
Net (Gain)/Loss for the Year	0	149	40	869	1,059	(897)

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 2020, 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	31.03.2020 £000
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Bond & Equity funds	FVPL	1	11,785	12,876
Property Fund 18/19	FVPL	1	4,962	
Property Fund 19/20	FVPL	2		4,784
REIT	FVOCI	2		1,960
Money market funds	FVPL	1	13,374	17,744

The Council's sole property fund investment totalling £4.8m has been moved from level 1 to level 2 of the hierarchy for 2019/20 reflecting that there is no longer an active market in these instruments. Fund managers have suspended redemptions reflecting market conditions for underlying properties caused by the economic consequences of the coronavirus pandemic.

(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		31.03.2020	
	Long-term £000	Short-term £000	Long-term £000	Short-term £000
A+				526
A-		1,978		
BBB+				
Unrated local authorities		4,000		4,000
Total	0	5,978	0	4,526

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.

	31.03.2019	31.03.2020
	Trade	Trade
	Receivables	Receivables
	£000	£000
Neither past due nor impaired	1,276	2,389
Past due < 3 months	549	555
Past due 3-6 months	117	314
Past due 6-12 months	145	14
Past due 12+ months	253	275
TOTAL RECEIVABLES	2,340	3,547

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	31.03.2019	31.03.2020	31.03.2020
		£000	£000	£000	£000
Henfield leisure centre	Loans at market rates	241	241	208	208

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	31.03.2020
	£000	£000
Increase in interest receivable on variable rate investments	(99)	(164)
Decrease in fair value of investments held at FVPL	229	274
Impact on Surplus or Deficit on the Provision of Services	130	110
Decrease in fair value of investments held at FVOCI	0	0
Impact on Comprehensive Income and Expenditure	130	130
Decrease in fair value of loans and investments at amortised cost *	12	1
Decrease in fair value of fixed rate borrowing *	0	0

*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 pooled funds including property is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property fund pooled fund investments and REITs of £7m and £2m respectively. A 5% fall in commercial property prices at 31 March 2020 would result in a £0.24m (2019: £0.26m) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account and a £0.06m charge to Other Comprehensive Income and Expenditure.

The Council's investment in 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 £15m. A 5% fall in share prices at 31 March 2020 would result in a £0.23m (2019: £0.25m) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

15 CASH AND CASH EQUIVALENTS

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

	31.03.2019	31.03.2020
	£000	£000
Cash held by Council	7	8
Money market Funds	4,003	5,499
Short-term deposits	1,978	526
Cash in transit	(691)	255
Total Cash and Cash Equivalents	5,297	6,288

16 SHORT-TERM DEBTORS

	31.03.2019	31.03.2020
	£000	£000
Sundry Debtors	3,333	3,224
Central government bodies	949	405
Payments in advance	451	415
Council Tax debtors	403	407
NNDR Debtors	1,028	341
Housing benefit overpayments	2,740	2,515
Sub-total	8,904	7,307
Allowance for doubtful debts	(2,965)	(2,915)
Total debtors after allowance for doubtful debts	5,939	4,392

17 SHORT-TERM CREDITORS

	31.03.2019	31.03.2020
	£000	£000
Sundry Creditors	(4,581)	(7,132)
Prepayment of NNDR	(902)	(169)
Prepayment of Council Tax	(275)	(299)
WSCC Council Tax creditors	(2,494)	(1,475)
SPA Council Tax creditors	(314)	(203)
Central Government – Grants, Reliefs and Levy	(402)	(50)
Central Government - NNDR creditors	(2,253)	(365)
WSCC NNDR Creditors	(451)	(4,827)
Total	(11,672)	(14,520)

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 2018	(1,844)	(71)	(155)	(2,070)
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	(2,493)	0	(161)	(2,653)
Provisions used in 2019/20	125	0	3	128
Amounts used in 2019/20	0	0	0	0
Change in collection fund share	1,247	0	0	1,247
Unused amounts reversed in 2019/20	0	0	0	0
Balance at 31 March 2020	(1,121)	0	(158)	(1,278)

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	31.03.2020	31.03.2019	31.03.2020
	£000	£000	£000	£000
Opening balance	(10,071)	(8,737)	(15,659)	(14,037)
Grants/Contributions in	(3,744)	(3,685)	(815)	(411)
Grants/Contributions out	5,078	316	2,437	1,663
Closing balance	(8,737)	(12,106)	(14,037)	(12,785)

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 2019/20

Useable Revenue Reserves	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	Income / Expenditure 2019/20 £000	Transfer to / from other reserves 2019/20 £000	Balance at 31.03.20 £000
General Fund Balance	(11,658)	(7,976)	5,405	(14,229)	(6,562)	5,130	(15,662)
New Homes Reserve	(4,048)	0	30	(4,018)	4,062	(4,715)	(4,671)
NHB - BBH Leisure Centre	(1,382)	5,894	(4,827)	(314)	314	0	0
Health and Wellbeing	(197)	0	(13)	(210)	0	(97)	(308)
Council tax localism	(293)	0	0	(293)	0	0	(293)
Neighbourhood Planning Grant	(278)	0	0	(278)	0	0	(278)
s106 Reserves	(752)	0	166	(586)	0	(216)	(802)
NNDR Provision	(1,435)	0	0	(1,435)	0	0	(1,435)
Homelessness Prevention	0	0	(82)	(82)	0	5	(77)
Revenues & Benefits	0	0	(318)	(318)	0	0	(318)
Transformation fund	(94)	0	(261)	(355)	0	(23)	(377)
Other	(786)	0	(100)	(885)	0	(83)	(968)
Other Earmarked Reserves	(9,264)	5,894	(5,405)	(8,774)	4,376	(5,130)	(9,528)
Sub-total	(20,923)			(23,003)			(25,190)
Useable Capital Reserves							
Capital Receipts Reserve	(1,033)	(294)		(1,327)	(761)		(2,088)
Capital Grants unapplied	(6,452)	(2,694)		(9,145)	(1,501)		(10,646)
Total Useable Revenue Reserves	(28,408)			(33,475)			(37,924)

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 £000	31.03.2020 £000
Balance at 1 April	(33,517)	(34,517)
(Upward)/downward revaluation of assets	(5,329)	(3,085)
Downward revaluation of assets and impairment losses not charged to the Surplus/deficit on the Provision of Services	3,778	915
Difference between fair value depreciation and historical cost depreciation	551	525
Amount written off to the Capital Adjustment Account	0	330
Balance at 31 March	<u>(34,517)</u>	<u>(35,832)</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 £000	2019/20 £000
Balance at 1 April	(10,314)	(2,961)
Actuarial gains or losses on pensions assets and liabilities	4,688	(26,162)
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	5,147	5,528
Employers pensions contributions and direct payments to pensioners payable in the year	<u>(2,482)</u>	<u>(2,563)</u>
Balance at 31 March	<u>(2,961)</u>	<u>(26,158)</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	2019/20 £000
Balance at 1 April	(88,638)	(93,379)
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	1,803
- Revaluation gains / losses on Property, Plant and Equipment	7,026	2,142
- Depreciation of intangible assets	3	11
- Revenue expenditure funded from capital under statute	1,941	1,752
- 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	43
Movements in the market value of Investment Property	(3,766)	(1,457)
Adjusting amounts written out of the Revaluation Reserve	(551)	
Service loan principal reversing previous year's financing	53	28
Service loan movement in expected credit losses	(1)	5
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	(984)	(934)
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(3,462)	(2,033)
- Application of grants to capital financing from the Capital Grants Unapplied Account	(108)	(1,115)
Statutory provision for the financing of capital investment charged against the General Fund	(870)	(844)
Use of general revenue reserves for the financing of capital investment	(6,418)	(4,376)
Balance at 31 March	(93,379)	(98,354)

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	2019/20
	£000	£000
Balance at 1 April - Council Tax	(369)	(261)
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	178
Balance at 31 March	(261)	(85)
Balance at 1 April – NNDR	815	1,094
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	(221)
Balance at 31 March	1,094	873
Total	833	788

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	2019/20
	£000	£000
Depreciation and Impairments	(2,399)	(2,339)
Impairments	(3,260)	(685)
Pensions Liability	(2,665)	(2,965)
(Increase)/decrease in debtors	(878)	(2,120)
(Increase)/decrease in creditors	8,017	869
Movement in provisions	(399)	(224)
(Increase)/decrease in inventories	16	(51)
Other non-cash adjustments	0	1713
Total	(1,568)	(5,802)

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

	2018/19	2019/20
	£000	£000
Capital grants credited to the surplus or deficit on the provision of services	6,264	4,649
Proceeds from the sale of non-current assets	1,225	1,294
Council Tax and NDR adjustment	180	185
Total	7,669	6,128

c) Interest received, interest paid and dividends received

	2018/19	2019/20
	£000	£000
Interest received	(882)	(889)
Interest paid	135	1
Total	(747)	(888)

22 EXTERNAL AUDIT COSTS

	2018/19 £000	2019/20 £000
Fees payable with regard to external audit services carried out by the appointed auditors for the year	39	39
Fees payable for the certification of grant claims and returns for the previous year	11	13
Fees payable in respect of other services relating to previous year	8	0
Refunds and credit notes		(5)
Total	58	47

The cost for the 2019/20 main audit is based on the indicative scale fee. 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 2018/19 housing benefit audit as well as a refund from Public Sector Audit Appointments.

23 MEMBERS ALLOWANCES

The Council paid the following amounts to the 48 Members of the Council during the year:

	2018/19 £000	2019/20 £000
Allowances	321	340
Expenses	24	21
Total	345	362

24 LEASES

Operating Leases

Council as a Lessee

The Council leases its main office and a small number of vehicles with charge of £0.25m

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 £000	31.03.2020 £000	31.03.2019 £000	31.03.2020 £000
Not later than one year	2,765	3,117	242	248
Later than one year and not later than five years	7,813	8,013	956	920
Later than five years	8,656	7,581	268	38
	19,234	18,711	1,466	1206

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 2019/20 (£0.22m in 2018/19).

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

25 SENIOR OFFICER'S REMUNERATION

<u>Corporate Post Holder Title</u>	Total Remuneration excluding pension contributions	Employer Pension Contributions	Total Remuneration including pension contributions	Note
2019/20	£	£	£	
Chief Executive	126,801	25,812	152,612	a
Director of Community Services	98,892	19,906	118,798	a
Director of Corporate Resources (Section 151 Officer)	104,187	19,906	124,093	a
Director of Place	95,531	19,196	114,727	b
Head of Legal and Democratic Services (Monitoring Officer)	80,594	15,092	95,687	a
2018/19	£	£	£	
Chief Executive	112,967	23,516	136,483	a
Director of Community Services	92,563	18,820	111,383	
Director of Corporate Resources (Section 151 Officer)	95,959	19,516	115,475	a
Director of Place	76,055	15,493	91,548	b
Head of Legal and Democratic Services (Monitoring Officer)	67,214	13,779	80,993	

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

Note:

a. Senior officers are remunerated for returning officer duties during elections. The amount of remuneration varies according to the type and number of elections. In 2019/20 the amount payable for returning officer duties was greater than the 2018/19 amount paid, as there were more elections in 2019/20.

b. 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.

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 2019/20
£50,000 - £54,999	4	6
£55,000 - £59,999	7	5
£60,000 - £64,999	2	4
£65,000 - £69,999	3	1
£70,000 - £74,999	0	0
£75,000 - £79,999	1	0
£80,000 - £84,999	0	1
£85,000 - £89,999	0	0
£90,000 - £94,999	1	0
£95,000 - £99,999	1	2
£100,000 - £104,999	0	1
£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

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	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19 £000	2019/20 £000
£0 - £20,000	3	2	6	7	9	9	51	29
£20,001 - £40,000	2	0	0	1	2	1	62	38
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	1	0	0	0	1	0	105	0
Total	6	2	6	8	12	10	218	67
Provision	0	0	0	0	0	0	0	0
Total	6	2	6	8	12	10	218	67

27 TERMINATION BENEFITS

During 2019/20 the Council terminated 10 posts at a total cost of £67k which was made up of redundancy payments of £16k and other termination costs of £51k.

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

During 2018/19 the Council also made redundant the Director of the Rural West Sussex Partnership, the above 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.

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 2020 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 2019/20 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 2019/20.

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 2019/20 amounted to £308k (£329k in 2018/19) and £76k (£66k in 2018/19) was outstanding as at 31 March 2020.

Wholly owned entities

On 21 March 2019, Cabinet approved the creation of two companies for the purpose of providing affordable rental housing in the District. The companies were incorporated in August 2019 and December 2019 respectively, and the Council is the sole shareholder. At 31 March 2020, the companies owed the Council £46k for administration costs provided through a service agreement. The amounts due are disclosed as debtors in these statements. The Council has not prepared group accounts for 2019/20 as the value of transactions are considered immaterial.

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	2019/20
	£000	£000
Opening Capital Financing Requirement	30,388	33,182
Capital Investment		
Property, Plant & Equipment	12,130	6,129
Investment Properties	541	2,101
Intangible Assets	24	0
Revenue Expenditure Funded from Capital Under Statute	1,941	1,752
Sources of finance		
Capital receipts	(984)	(934)
Government grants and other contributions	(3,571)	(3,148)
Direct revenue contributions	(6,418)	(4,376)
Minimum Revenue Provision	(870)	(844)
Closing Capital Financing Requirement	<u>33,181</u>	<u>33,862</u>
Explanation of movements in year		
Increase in underlying need to borrowing	3,663	1,524
Minimum Revenue Provision	(870)	(844)
Increase/ (decrease) in Capital Financing Requirement	<u>2,793</u>	<u>680</u>

30 DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

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

In addition, the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases and early access pension costs. In 2019/20 these amounted to £91k (£98k in 2018/19) representing 1% of pensionable pay (1% in 2018/19).

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movements in Reserves Statement.

The 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	2019/20
	£000	£000
Cost of Services		
- current service cost	(4,568)	(5,530)
- past service costs	(818)	(33)
Total Service Cost	(5,386)	(5,563)
Financing and Investment Income and Expenditure		
Interest income on planned assets	4,543	4,300
Interest cost on defined benefit obligation	(4,304)	(4,265)
Total Net Interest	239	35
Total Post Employment Benefit Charged to the Surplus or deficit on the provision of services	(5,147)	(5,528)
Re-measurements of the Net Defined Liability		
Actuarial gains arising from changes in demographic assumptions	0	0
Actuarial gains / (losses) arising from changes in financial assumptions	(12,094)	21,763
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	43	14,501
Return on assets excluding amounts included in net interest	7,364	(10,102)
Total re-measurements recognised in other comprehensive income	(4,687)	26,162
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(9,834)	20,634
<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	(5,147)	(5,528)
Actual amounts charged to the General fund balance for pensions in the year		
Employers contributions payable to the scheme	(2,482)	(2,563)

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	2019/20
	£000	£000
Present value of liabilities - Funded	(175,117)	(144,795)
Present value of liabilities - Un funded	(1,520)	(1,248)
Fair value of plan assets	179,598	172,201
Net asset (liability) arising from defined benefit obligation	2,961	26,158

The surplus on the balance sheet position increased in 2019/20. This is a result of the default longevity assumption changing from 2019 and a one year reduction has typically resulted in around a 3% to 5% reduction in the value placed on the year-end liabilities. This has outweighed the fall in value of the assets.

The accounting balance sheet position as at 31 March 2020, and the projected charge to the CIES for 2020/21, are based on a new 'roll forward' from the 2019 formal valuation. This differs to the balance sheet position as at 31 March

2019 and the charge to the CIES for 2019/20, which were based on a 'roll forward' from the 2016 formal valuation. This 'step change' led to sizeable asset and liability 're-measurement experience' items in the reconciliation of the balance sheet from 31 March 2019 to 31 March 2020. In effect, the accounting figures are "re-calibrated" every three years following each formal valuation.

Funded Liabilities - LGPS	2018/19	2019/20 HDC
Reconciliation of present value of the scheme liabilities:	£000	£000
Balance at 1 April	(158,745)	(176,637)
Current service cost	(4,568)	(5,530)
Interest cost	(4,304)	(4,265)
Contributions by scheme participants	(794)	(826)
Actuarial gains and losses	(12,051)	36,264
Benefits paid	4,643	4,984
Past service costs	(818)	(33)
Balance at 31 March	<u>(176,637)</u>	<u>(146,043)</u>
Reconciliation of fair value of the scheme assets:		
Balance at 1 April	169,058	179,598
Interest income on planned assets	4,543	4,300
Return on planned assets (excluding amounts in net interest)	7,364	(10,102)
Employer contributions	2,482	2,563
Contributions by scheme participants	794	826
Benefits paid	(4,643)	(4,984)
Balance at 31 March	<u>179,598</u>	<u>172,201</u>

LGPS Assets comprised:

	2019		2020	
	£000	% of assets	£000	% of assets
Equity Securities:				
Consumer	17,494.6	9.7%	15,297.5	8.9%
Manufacturing	10,321.7	5.7%	11,812.7	6.9%
Energy & Utilities	5,467.6	3.0%	4,186.4	2.4%
Financial Institutions	21,547.5	12.0%	19,158.2	11.1%
Health & Care	8,643.7	4.8%	11,555.5	6.7%
Information Technology	11,629.8	6.5%	18,369.7	10.7%
Other	10,262.1	5.7%	4,758.5	2.8%
Debt Securities:				
UK Government	5,096.1	2.8%	3,908.9	2.3%
Private Equity:				
All	4,989.6	2.8%	3,940.7	2.3%
Real Estate:				
UK Property	16,720.7	9.3%	13,310.9	7.7%
Investment Funds & Unit Trusts:				
Bonds	60,557.6	33.7%	57,016.4	33.1%
Other	1,916.6	1.1%	2,057.7	1.2%
Cash & cash Equivalents: All	4,950.4	2.8%	6,827.9	4.0%
	<u>179,598</u>	<u>100%</u>	<u>172,201</u>	<u>100%</u>

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 £26.2m (£2.9m surplus at 31 March 2019) which has an impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £195.4m.

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 2020 is £2.42m (£2.34m at 31 March 2019).

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 2019.

The principal assumptions used by the actuary have been:

		<u>2018/19</u>	<u>2019/20</u>
Long term expected rate of return on assets in the scheme:			
Mortality assumptions:			
Longevity at 65 for current pensioners:	Men	23.6	22.2
	Women	25.0	24.2
Longevity at 65 for future pensioners:	Men	26.0	23.3
	Women	27.8	25.9
Rate of inflation / pension		2.5%	1.9%
Rate of increase in salaries		3.2%	2.3%
Rate of discounting scheme liabilities		2.4%	2.3%

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.

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. Therefore, LGPS benefits accrued from 2014 may need to be enhanced so that all eligible members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. A full description of the data, methodology and assumptions underlying these estimates is given in GAD's paper, dated 10 June 2019.

The West Sussex County Council Pension Fund's actuary has adjusted GAD's estimate to better reflect the Fund's local assumptions, particularly those for salary increases and withdrawal rates. The revised estimate resulted in around a 1% increase in active member liabilities as at 31 March 2019 which resulted in an increase of approximately £0.8m. These have been carried through into the valuations at 31 March 2020.

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.

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.

During the building of Pirie's Place car park in 2019, the adjacent building was affected through the closure of the fire exits that led out through the car park. There is a potential litigation action in relation to sums being claimed as compensation.

32 GOING CONCERN

Underlying principle: These accounts have been prepared on a going concern basis that the authority will continue in operational existence for the foreseeable future.

The provisions in the Code of Audit Practice in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

Current & historical financial position: The Council recognises that the financial position has deteriorated in the early months of 2020/21, having reported a £248k surplus for the financial period ending 31st March 2020. The deterioration is only due to the impact of Covid-19.

Impact of Covid: The 2020/21 budget was set in February 2020 and set a budget surplus of £826k, to be reinvested in transformation to deliver savings and generate income to balance the budgets over the medium term financial plan to 2023/24.

However, since the budget was set, the emergence of Covid-19 has fundamentally changed the financial regime for a period of at least 4 months until the end of July 2020. During this period, the Council has incurred approximately £0.2m of additional expenditure each month and has seen income fall by approximately £0.7m each month where services such as leisure and parking were closed and also reductions in income from commercial property and investments. A gradual return of most income streams are anticipated, although not necessarily back to the levels previously budgeted for.

The forecast overspend in 2020/21 is a minimum of £4m, with a worst case scenario of around £9m. The Council has received £1.47m to date from Government as grant funding towards the cost of Covid-19. The Council has already made plans to make some service areas that were closed more sustainable in the future.

All service areas are reviewing their budgets during 2020 to identify options for identifying and delivering efficiency savings and / or generating income, with the aim of setting a balanced budget in 2021/22 and reducing the overspend in 2020/21. The size of the challenge is an estimated reduction in ongoing income of between £2.5m and £3m per year in a deep recession.

Cash position: The Council had a cash balance of £11m at the end of June 2020, similar to the 31 March 2020 year-end figure of £6.3m. The Council also has £9m in money market funds available in two to three days and a further £13m in longer term non-property investments, also available within a few days. Whilst there is uncertainty on income, the Council remains confident in its ability to maintain sufficient cash for its services throughout the medium term. The Council is of course also able to borrow short term for revenue purposes if ever needed.

In a 'stressed' case scenario whereby income is constrained further in the event of a second wave, and income recovering only very slowly, the Council has sufficient levels of reserves and investments that it would not run out of cash.

Furthermore, the Council has revisited the 2020/21 capital programme and is postponing non-essential capital projects that will further protect the levels of cash and useable reserves. The revised programme has reduced to £9m, focusing on projects that produce a positive financial revenue return as well as those where there are health and safety requirements or were already in progress and could not be postponed without incurring significant costs.

Conclusion:

These accounts have been prepared on a going concern basis, following the projection of an overspend in 2020/21 that is well within the level of general useable reserves and a plan to produce a balanced budget in 2021/22.

COLLECTION FUND

2018-19

2019-20

Business Rates £000	Council Tax £000	Total £000
0	(103,806)	(103,806)
(43,359)	0	(43,359)
0	(1)	(1)
(839)	0	(839)
<u>(44,198)</u>	<u>(103,807)</u>	<u>(148,006)</u>
(129)	212	82
(32)	1,370	1,338
0	168	168
(162)	0	(162)
(323)	1,750	1,427
17,070	12,368	29,438
4,268	80,182	84,450
0	10,095	10,095
21,338	0	21,338
42,675	102,645	145,321
441	310	751
303	(1)	302
1,621	0	1,621
180	0	180
<u>2,544</u>	<u>309</u>	<u>2,853</u>
<u>44,896</u>	<u>104,704</u>	<u>149,601</u>
698	897	1,595
2,041	(3,042)	(1,001)
<u>2,739</u>	<u>(2,145)</u>	<u>594</u>

INCOME

Council Tax Receivable	0	(111,932)	(111,932)
Business Rates Receivable	(43,577)	0	(43,577)

Transfers from General Fund

Transitional Relief	0	12	12
Transitional Protection	(371)	0	(371)

Total Income

(43,948)	(111,920)	(155,868)
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EXPENDITURE

Apportionment of Previous Year Surplus / (Deficit)

Horsham District Council	(14)	240	226
West Sussex County Council	(3)	1,562	1,559
Sussex Police Authority		197	197
Central Government	(17)		(17)
	(34)	1,999	1,965

Precepts, Demands and Shares

Horsham District Council	8,607	13,198	21,805
West Sussex County Council	23,670	86,040	109,710
Sussex Police Authority		11,810	11,810
Central Government	10,759	0	10,759
	43,036	111,048	154,084

Charges to Collection Fund

Write offs of uncollectable amounts	503	316	819
Increase / (Decrease) in Bad Debt Provision	(279)	8	(271)
Increase / (Decrease) in Provision for Appeals	(627)	0	(627)
Cost of Collection	185	0	185
Disregarded Amounts	94		94
	(124)	324	200

Total Expenditure

42,878	113,371	156,249
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(Surplus) / Deficit arising during the Year

(1,070)	1,451	381
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(Surplus) / Deficit brought forward 1 April

2,739	(2,145)	594
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(Surplus) / Deficit carried forward 31 March

1,669	(694)	975
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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	1
A	up to 40,000	6/9	994
B	40,001-52,000	7/9	3,275
C	52,001-68,000	8/9	9,663
D	68,001-88,000	1	12,004
E	88,001-120,000	11/9	12,364
F	120,001-160,000	13/9	10,960
G	160,001-320,000	15/9	12,066
H	over 320,000	2	1,467
COUNCIL TAX BASE			62,794

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 2020 was £113,464m and the standard National Non-Domestic Rate multiplier for the year was £0.504

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 2020			
£000			
Accumulated (Surplus) / deficit at 31 March 2020			975
Apportionment based on 2019/20 precepts and demands:			
Deficit / (surplus)			
	<u>Business</u>	<u>Council</u>	
	<u>Rates</u>	<u>Tax</u>	Total
	£000	£000	£000
Horsham District Council	875	(82)	792
West Sussex County Council	(299)	(538)	(837)
Sussex Police Authority	-	(74)	(74)
Central Government	1,093	-	1,093
	1,669	(694)	975

GLOSSARY

BALANCES	The amounts remaining at the year-end on the various funds of the Council.
CAPITAL EXPENDITURE	Expenditure on the acquisition of assets either directly by the Local Authority or indirectly in the form of grants to other persons or bodies that will give benefit for a number of years.
CAPITAL RECEIPTS	Receipts from the sale of property, plant and equipment e.g. land, building etc.
CENTRAL SUPPORT SERVICES	The expenditure on the central administration of the Council, including the cost of accommodation.
COLLECTION FUND	A statutory fund maintained by a billing authority that is used to record local taxes and non-domestic rates collected by the Council, payments to precepting authorities, central government and its own general fund.
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.

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Report to Audit Committee

15th July 2020

By the Chief Internal Auditor



**Horsham
District
Council**

INFORMATION REPORT

Not Exempt

Internal Audit – Annual Report and Opinion 2019/20

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.
- Summarise performance against key indicators.
- Provide an update on internal audit and counter fraud activity undertaken during Quarter 4.

No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor is able to 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 2019 to 31 March 2020.

Recommendations

- 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.
- To note the performance of Orbis Internal Audit against performance targets.
- To note the summary of audit and project work undertaken during Quarter 4.

Reasons for Recommendations

- To comply with the requirements set out in the Public Sector Internal Auditing Standards.
- 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, 07885-381446

Background Information

1. Introduction and Background

1.1 Annual Report and Opinion

The 2019/20 internal audit plan was approved by this committee in April 2019. All reviews have been completed, and our Annual Report and Opinion for the year is attached as Annexe A.

1.2 Quarter 4 Update

The Audit Committee receives periodic reports on the work carried out by the Internal Audit service 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 2020).

1.3 Staffing

The Horsham internal audit plan has been delivered by the Orbis Internal Audit Partnership in accordance with professional standards (see below). All auditors have the requisite experience to effectively fulfil their responsibilities, and all auditors who have undertaken work for Horsham D.C during 2019/20 are either professionally qualified, or are working towards a professional qualification. All work is overseen by the Chief Internal Auditor who is CMIIA 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 annually.

3. Service Quality and Performance

3.1 As explained above, 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. As well as self-assessing against the standards every year, performance of the service is also monitored through a range of performance indicators, the results of which are contained within Appendix A of the annual report.

3.2 The Internal Audit service has maintained its independence throughout 2019/20 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 includes a summary of 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 2019/2020



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 1972 Local Government Act (S151) and 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 corporate and departmental 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 2019/20, 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. This has included responding to, and investigating, allegations of fraud and other irregularities.

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 reasonable¹ 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 2019 to 31 March 2020.

3.2 Further information on the basis of this opinion is provided below. Overall, whilst the majority of audit opinions issued in the year were generally positive, internal audit activities have identified a number of areas where the operation of internal controls has not been fully effective, as reflected by the minimal assurance opinion and four partial assurance reports issued in the year.

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:

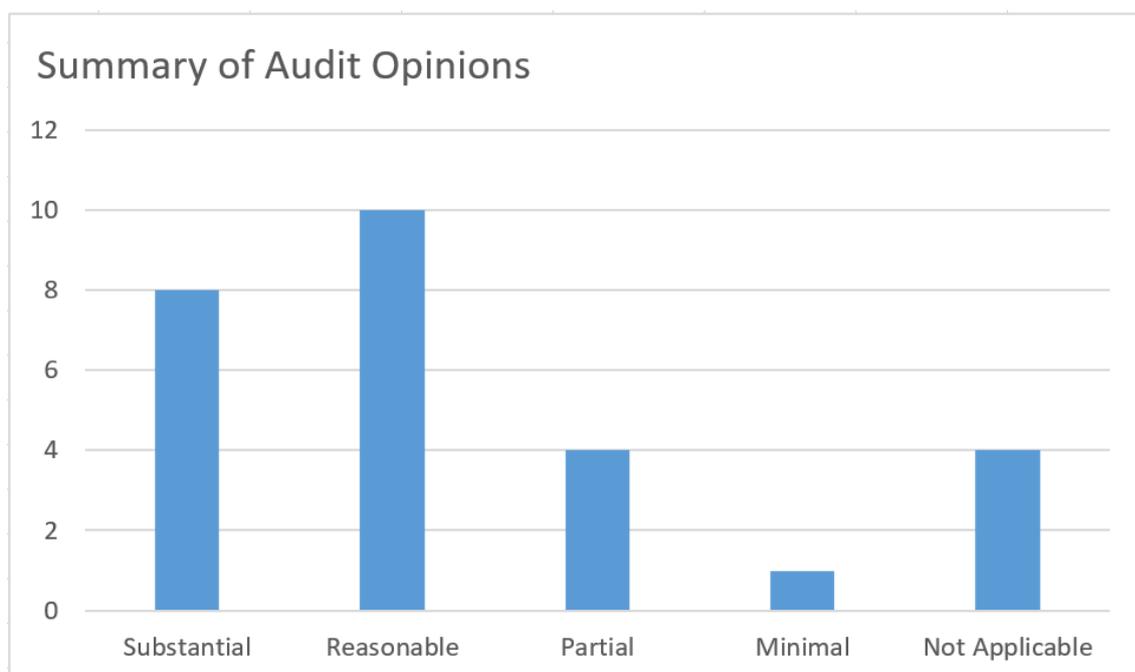
- All audit work completed during 2019/20, planned and unplanned;
- Follow up of actions from previous audits;
- Management’s response to audit findings;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor at organisational meetings relating to risk, 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 2019/20.

5. Key Internal Audit Issues for 2019/20

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 2019/20:



5.3 A full listing of all completed audits and opinions for the year is included in 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 five audits received minimal or partial assurance opinions within the year, as follows:

- Hop Oast (Cultural Compliance)
- Accounts Receivable
- Emergency Planning
- Contract Management (Supplier Resilience)
- Cultural Compliance (Property)

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.

5.6 At the time of producing this report, all audit reviews for 2019/20 (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 2019/20, all have resulted in either substantial or reasonable assurance being provided over the control environment, with the exception of the Accounts Receivable System. Whilst in the most part, the Council's income collection and accounting arrangements were found to be reasonable, one service had fallen behind in the invoicing of some of its customers following its decision to transfer customer data from an Access database to another software system.

Other Internal Audit Activity

5.8 During 2019/20, 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. This includes participation in the following groups:

- Officer Corporate Governance Group.
- Officer Risk Management Group.
- Officer Project Review Group.

5.9 As well as actively contributing to, and advising these groups, we utilise the intelligence gained from the discussions to inform our own current and future work programmes to help ensure our work continues to focus on the most important risk areas.

Anti-Fraud and Corruption

5.10 During 2019/20, the Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the Orbis Partnership.

5.11 A fraud awareness session was delivered at the January 2020 Manager's Forum meeting which informed senior managers of the latest internal and external fraud risks facing local government; some recent high profile investigations the team had been involved in; and the value of having Internal Audit conduct independent investigations where allegations of financial irregularities are identified.

5.12 Any internal control weaknesses identified during our investigation work are reported to management, and actions for improvement are agreed. This work is also used to inform future Internal Audit activity.

5.13 The team logged two fraud allegations for Horsham DC under the Council's Counter Fraud Strategy and Framework. These cases were identified as a direct result of scheduled Internal Audit work, and through employee whistleblowing. In particular, as reported in April, a mileage claim irregularity was investigated by the Orbis Internal Audit Counter Fraud Team. This culminated in a formal disciplinary hearing which led to a dismissal.

5.14 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. Internal Audit continues to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff.

Amendments to the Audit Plan

5.15 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:

- Review of of the HDC/LGSS file transfer process.
- A review of mileage claims, following an identified irregularity.
- Review of officer declarations of interest resulting in improvements in data capture and guidance.

5.16 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:

- Car Parking Income (deferred until 2020/21).

6. Internal Audit Performance

6.1 The 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 2019/20, 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 2020:

- 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 independent South West Audit Partnership 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 2019/20 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 2019/20

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	2018/19 report approved by Committee on 11 th July 2019.
	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	January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings Quarter 4 2019/20 - Internal Self Assessment completed
	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	98%
Our staff	Professionally Qualified/Accredited	80%	G	93%

Summary of Opinions for Internal Audit Reports issued during 2019/20

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

Audit Title	Department
Treasury Management	Finance
Cash & Bank	Finance
Business Rates	LGSS
Fire Safety (Follow up)	Property
Homelessness Reduction Act 2017	Housing
Print Procurement	Communications
Server Room	Technology Services
Backup & Recovery	Technology Services

Reasonable Assurance:

Audit Title	Department
Accounts Payable	Finance
Housing Benefits	LGSS
Council Tax	LGSS
Payroll	Finance
Capital Programme	Finance
Technology One (Application Controls)	Finance
Purchase Cards	Finance
Asset Management ICT Equipment	Technology Services
GDPR (General Data Protection Regulations)	Legal Services
Housing Company	Housing / Property & Facilities

Partial Assurance:

Audit Title	Department
Accounts Receivable	Finance
Emergency Planning	Community Services
Contract Management (Supplier Resilience)	Corporate
Cultural Compliance (Property)	Property & Facilities

Minimal Assurance:

Audit Title	Department
Cultural Compliance (Hop Oast Depot)	Waste Management

Other Audit Activity Undertaken During 2019/20 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
Year of Culture Project Review	Leisure & Culture
Advice and Support for New Technology One HR System	HR & OD
Horsham/LGSS File Transfer Process	Finance / Technology Services
Officer Declarations of Interest – System Improvements	Corporate

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.

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Summary of Key Audit Findings for Quarter 4 2019/20

Payroll

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 on 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.

Overall, we found that the Council has effective arrangements in place in terms of the control environment for the payroll service, and we were therefore able to provide an opinion of **Reasonable Assurance**.

In particular, we found that regular reconciliations are undertaken between the payroll data to the general ledger; new employees are appropriately approved; salary information is accurate and paid from the correct dates; and overpayments are promptly identified, investigated, and appropriate action is taken.

However, improvements have been agreed in a number of areas:

- The control process for pre-employment checks has been strengthened, so that identification documents are obtained and, where applicable, DBS checks are undertaken prior to the commencement of employment.
- Controls and management review processes have been improved to minimise the incidence of overpayments to leavers, casual workers; and employees in receipt of overtime payments.
- An email has been sent to all staff requesting them to provide a greater level of detail for journey descriptions when completing mileage claim forms.

Accounts Payable

Accounts Payable is the system for making payments to creditors and suppliers.

The Finance team is responsible for the processing of payments to suppliers using the Technology One (T1) system, which is the Council's main financial system.

Between 1 April 2019 and 15 January 2020, a total of 8,192 invoices with a total value of approximately £24 million had been paid for goods received or services rendered.

The purpose of this review was to ensure that:

- Orders are raised for goods, works and services in accordance with standard financial procedures and the needs of the Council;
- All payments (including non-order invoices, cheque requisitions and urgent payments where appropriate) are subject to review and approval to ensure payments are valid and goods, works or services have been received and are correctly processed;
- Payment runs are subject to appropriate review and authorisation;
- Only creditors that meet the needs of the Council and that do not already exist in the Creditors system are set up. All creditors' details are maintained accurately in the Creditors system;
- Transactions in the Creditors system are completely and accurately transferred to (or reflected in) the General Ledger.

Overall, we were able to provide **Reasonable Assurance** over the key controls operating within the area under review.

The following areas of good practice were identified whilst undertaking the audit:

- The Accounts Payable (AP) system is well controlled as the service operates to a high level of accuracy, and no material processing errors were identified.
- Documentation to support both purchase order and non-purchase order payments was available upon request.
- Reconciliations between the AP system and the General Ledger (GL) are performed on a regular basis. They are executed by an appropriate member of the Accounts Payable team and reviewed by a senior member of the Finance team.

However, a number of areas for improvement were identified which have been agreed with management:

- The use of purchase orders across the Council was raised as an action in the 2017/18 audit. We did not include this outstanding action as part of the audit review, as we are aware that purchase orders are being considered at a corporate level.
- Documentation to support the agreement of and approval levels of authorised signatories in T1 will be added to the user profiles to ensure that members of staff have appropriate approval rights and/or authorisation levels.

- Services will be reminded of the need to action invoices as soon as they are received and note the receipt date to the Council in order to accurately record and report invoice processing dates.
- A duplicate payments report will be devised and run on a regular basis.
- A monthly report will be run to capture changes made to vendor records within the T1 system which will be reviewed (and approved) by the line manager.
- Controls around vendor creation and amendments to vendors' bank details will be strengthened to ensure the validity of information held within the vendor master record.

Affordable Housing Company

The 2011 Localism Act gave local authorities the power to establish their own private local housing companies, which are independent, arms-length, commercial organisations, wholly or partly owned by councils. They can develop, buy, and manage properties in and outside of a local authority area.

The Council has created a housing company (Horsham District Homes), and a subsidiary company (Horsham District Homes [Holdings]), to develop, buy, manage, and maintain affordable housing across the district, in order to meet the Council's strategic housing objectives to:

- Increase delivery of affordable housing;
- Make the best use of S106 commuted sums;
- Provide a financial return to the Council for reinvestment in the District.

The proposal for the Council's Affordable Housing Company (AHC) was approved by the Cabinet in March 2019.

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

- All appropriate governance arrangements are in place and are operating as expected;
- Specialist legal advice has been sought and has been complied with to ensure the company creation is compliant with current legislation and regulations;
- The business case (and associated documentation) for setting up the affordable housing company clearly sets out: business goals and objectives; risks and mitigating actions that will be taken; a project plan that includes financial planning; and timelines for development and implementation.

Based on the work carried out, we were able to provide an opinion of **Reasonable Assurance** in this area.

Specialist external legal advice was sought and complied with at an early stage, and it was noted that the legal firm who provided advice to the Council drafted all of the incorporation documents that were adopted and implemented. A clear governance structure for the AHC has been established, documented, and agreed. The business case for the creation of an AHC was approved by the Cabinet, and included business objectives and identified sources of financial investment.

However, there were a few areas identified where further action may be required in order to further strengthen the governance arrangements:

- All Company policies and procedures created (or adopted from the Council) will be approved by the Board of Directors, and a letter will be provided to the Council confirming which policies and procedures have been adopted.
- Horsham District Homes will adopt the Council's Anti-Bribery Policy, and a letter will be provided to the Council confirming this.
- The directors of the AHC will develop a conflict of interest policy that will be adopted and adhered to by those directly involved with Horsham District Homes. The policy will be submitted to the Council for approval.
- It will be noted at full Council that the appointment of the Company Directors was delegated to the Director of Community Services and the Cabinet Member for Community and Wellbeing.
- Documents associated with Horsham District Homes will only be accessible by the Board of Directors, and will be securely stored.

Fire Safety Follow up

An audit of Fire Safety was undertaken during the early part of 2019, and at that time, we were only able to provide a "partial" assurance opinion. We therefore included a follow up review in the audit plan for 2019/20, for the purpose of ensuring that significant improvements have been made in accordance with the agreed management action plan.

The following is an extract from the 2018/19 audit report which provides an overall summary of the findings from our previous review:

"A more coordinated approach to fire safety is needed, including senior management oversight and engagement. Specific areas of concern include: a lack of effective change control; lack of fire safety (emergency) plans; lack of fire drills; lack of an overarching training plan; and some specific weaknesses relating to fire evacuation. There is also a need for specific reviews of: fire doors, to ensure they provide adequate protection; the frequency of fixed wire inspections in public buildings; and the establishment of competency criteria for fire risk assessors".

In completing this work, we are pleased to report that significant improvements have been made, and we were able to provide an overall opinion of **Substantial Assurance**.

Overall, of the 12 findings from the 2018/19 report, all have been addressed (either completely or in part) and where possible these have been implemented within defined timescales.

We raised six findings in the follow up review, but none of these were considered to be fundamental to internal control, and as such, the actions agreed were all rated as low priority.

Backup and Recovery

All organisations that use IT and data as part of their operations have a need for a backup and recovery plan. The plan should enable the Council to ensure that their information assets are protected from loss, corruption or destruction, and that continuity of services can be maintained.

The Council, like the majority of organisations, are heavily reliant on IT systems, and the availability of them, in order to provide services to their customers. As such, the loss of systems and/or data should be considered as potentially high risk to the organisation.

The objective of the audit was to evaluate the arrangements for backing up and recovering data from critical systems, ensuring arrangements are fit for purpose, subject to regular testing, and that all data is stored securely.

Overall, we have been able to provide **Substantial Assurance** over the controls operating within the area under review.

Effective governance processes were found to be in place for data backup and recovery with an overarching policy in place, and roles and responsibilities for all officers across the Council are clearly documented as part of this.

Data backups are programmed to happen on either hourly, daily or weekly intervals and have been taking place in line with these agreed schedules. Processes are in place for different media sources (for example, on premises servers and the 'cloud' through Microsoft Azure) which are used for daily and weekly backups, in order to provide additional safeguards in the event of a loss in IT services.

The Council has successfully migrated most of their backup processes to a 'cloud-based' solution through Microsoft Azure, although a small number of weekly backups are still taking place with physical tapes.

Appropriate physical security is in place to prevent unauthorised access to servers and physical backup tapes.

An exercise has been undertaken to identify and rank applications across the Council, including the order in which they would need to be restored. This document has been used successfully as part of a 'live' full recovery scenario.

We agreed a few actions for improvement in relation to documenting backup processes, and the creation of a testing schedule.

Report to Audit Committee

15th July 2020

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

Corporate Risk Register

Wards affected: All

Contact: Julie McKenzie, Head of Customer Service and Performance 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.

There are six risks which are currently considered to be high and eight medium risks. The high risk area relates to the following:

	CRR02 CRR06 CRR32 CRR33 CRR34 CRR35a	CRR18	CRR01c	CRR01b CRR03 CRR19 CRR35
CRR31		CRR05		
			CRR17	

CRR01b	Funding from Government is less generous than assumed in the Medium Term Financial Strategy (MTFS) from 2021
CRR03	The Council is found to have failed to fulfil its obligations under the Act in the event of a civil emergency.
CRR19	Ongoing reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims.
CRR35	(i) The Council is unable to deliver statutory front line services to the community due to, for example, staff shortages or unavailability of key officers. (ii) Substantial financial loss to the Council.
CRR01c	Decrease in Rateable Value due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.
CRR18	(i) A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. (ii) IT not working due to environmental problems: fire, flood, power cut

One risk has now been mitigated and the Senior Leadership Team has confirmed that this should be removed. This is:

CRR31	Unavailability of key officers, inadequate processes (including risk assessments and election project plan) leading to failure (including legal challenge).
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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 Registers

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.

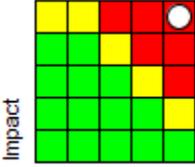
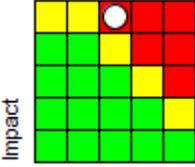
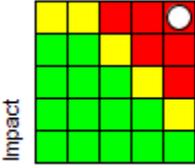
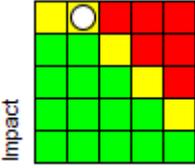
10 Other Considerations

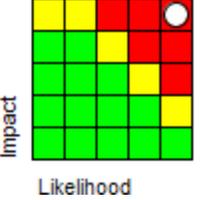
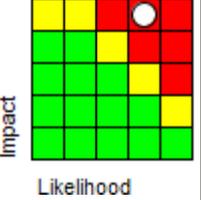
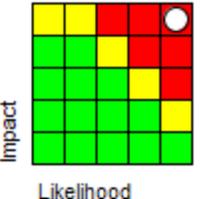
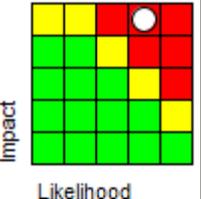
10.1 Risk management encompasses all risks within the organisation, including strategic, operational, and project/change risks. This includes consideration of Crime & Disorder; Human Rights; Equality & Diversity; and Sustainability as appropriate.

Appendix 1 Corporate Risk Report June 2020

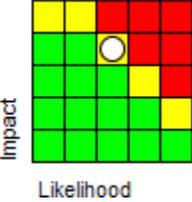
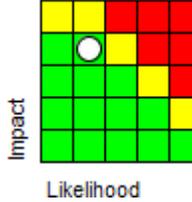
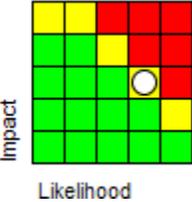
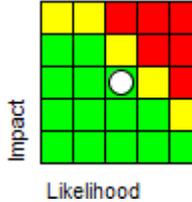
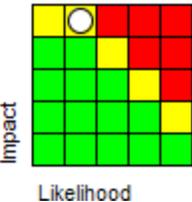
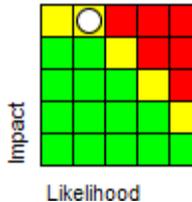
Risks ordered by RAG not numerically

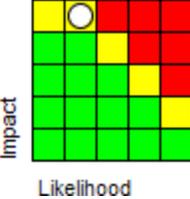
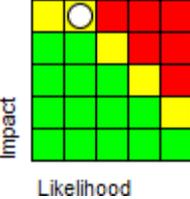
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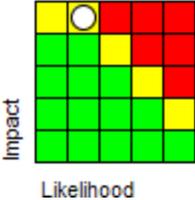
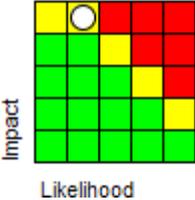
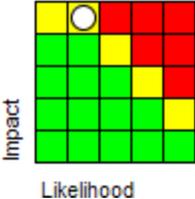
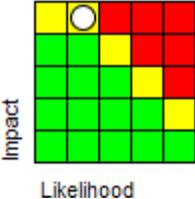
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR01b Financial Cause: The Council is reliant on Central Controlled Government funding (e.g. Business Rates). Risk: (ii) Funding from Government is less generous than assumed in the MTFS from 2021</p>	<p>Reductions in funding Adverse effect on morale Financial Failure to achieve agreed objectives</p>	Jane Eaton		CRR.01b.1 Continue to keep a watching brief	Dominic Bradley		<p><u>June 2020 Update:</u> The Government has withdrawn the changes to business rates and revenue funding through the Fair Funding Review for the time being. This has removed this part of the risk. However, Government funding for the COVID-19 lockdown was only enough to cover 2 months' losses, maybe as low as 20% of the Council's 2020/21 losses. Losses in future years are expected to be severe and based on a much-reduced financial situation in the Council as a whole.</p>
				CRR.01b.2 Revisit the MTFS and if necessary 2020/21 budget in year, with Cabinet in July.			
<p>CRR03 Legal Cause: The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses. Risk: 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</p>	Adam Chalmers		CRR.03.1 Update corporate business continuity plan and regular review.	Rob Jarvis		<p><u>June 2020 Update:</u> CRR.03.1 BC plan in place and currently being reviewed/updated to suit current COVID-19 response and business recovery. New sections being added to address possibility of 2nd wave and local lockdown scenarios and reviewed by BC working group. CRR.03.2 Department BC plans currently being used and amended (where necessary) to deal with COVID-19 and newly released national COVID secure guidance. Full reviews are required once pandemic threat is passed and lessons identified to be implemented into new BC department plans. Estimated review date – Oct/Nov 2020. CRR.03.5 All bite size sessions</p>
				CRR.03.2 Update departmental business continuity plans and regular review.	Rob Jarvis		
				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		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
	Censure by regulators Reputation damaged						postponed. Debrief and review sessions will be introduced and run once COVID-19 guidelines allow (estimated Oct/Nov 2020 but might extend depending upon the pandemic).
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. The impact on the financial markets and the pound following Covid-19 has brought forward a deeper depression and caused a slowdown in the property and financial markets. <u>Risk:</u> Ongoing reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims.	Financial Service Delivery Compliance with Regulations	Jane Eaton		CRR.19.2 Monitor the external environment CRR.19.3 Monitor internal indicators, particularly income generation and respond appropriately to adverse trends	Dominic Bradley Dominic Bradley		<u>June 2020 Update:</u> Covid-19 has triggered a sudden and deep recession. The impact on the economy and income in particular is severe, running at approximately £0.8m a month. The Council has only received £1.5m from Government so far. Swift action is required to review income and revenue and capital expenditure, revisiting the MTFs. The £246k outturn surplus from 2019/20 was reported to Overview and Scrutiny Committee in June as part of the quarterly budget and performance monitoring. An MTFs update will be presented to Members in July.
CRR35 <u>Cause:</u> COVID-19 is a new illness that can affect your lungs and airways and is caused by a virus called coronavirus. The illness is highly contagious, and people with underlying health conditions are at a higher risk of becoming very ill. This includes older adults, and/or people with chronic medical conditions such as heart disease; diabetes; and lung disease. <u>Risk:</u> (i) The Council is unable to deliver statutory front-line services to the community due to, for example, staff shortages or unavailability of key officers. (ii) Substantial financial loss to the Council.	Failure of business objectives Health and safety Financial Service Delivery Compliance with regulations Reputation Staffing and culture	Glen Chipp		CRR.35.1 Essential services have been highlighted with the intention of redeployment of staff from other service areas. Staffing shortages on refuse collection may benefit from availability in the labour market. CRR.35.2 Funding from Government	Jane Eaton Jane Eaton		<u>June 2020 Update</u> (i) Food safety premises inspections not taking place, otherwise all services being delivered. Revenues and Benefits have double the workload and extra duties. (ii) Funding from Government expected to cover c25% of HDC's costs

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR01c Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g. Business Rates).</p> <p><u>Risk:</u> Decrease in Rateable Value due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.</p>	Reductions in funding Financial	Jane Eaton		CRR.01c.1 Continue to keep a watching brief	Dominic Bradley		<p>June 2020 Update:</p> <p>With business rates reform postponed and the COVID-19 recession further reductions in business rates seem inevitable</p>
<p>CRR18 Technological <u>Cause:</u> 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><u>Risk 1:</u> A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.</p> <p><u>Risk 2:</u> IT not working due to environmental problems: fire, flood, power cut</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.	Jane Eaton		<p>CRR.18.1 Staff and Member Training</p> <p>CRR.18.2 Awareness of current threats</p> <p>CRR.18.3 An effective ICT Service delivery team</p> <p>CRR.18.4 Effective patching and updates to mitigate known vulnerabilities</p> <p>CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)</p> <p>CRR.18.6 Effective policies in place which outline security requirements for users of ICT</p> <p>CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.</p> <p>CRR.18.8 Transferring the risks to the cloud provider</p> <p>CRR.18.9 LGA Cyber Security review plan developed, approved internally and being carried out.</p>	<p>Claire Ward / Robert Laban</p> <p>Andrea Curson</p>		<p>June 2020 Update:</p> <p>Level of attack, particularly Ransomware attacks has been raised by the Cabinet Office. Remediation ongoing.</p> <p>CRR.18.1 IT Security Training has been rolled out to all staff and the IT Security Officer has reviewed the training and some items have been sent out to staff. More staff training to follow.</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 PSN Accreditation</p> <p>CRR. 18.6 This work is ongoing. New policies to be issued shortly.</p> <p>CRR.18.7 This work is ongoing.</p> <p>CRR 18.8 This work is ongoing</p> <p>CRR 18.9 We have undertaken a second stock take with an improved score and have adjusted the action plan accordingly. Work is progressing</p>

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR05 Governance Cause: Managers are responsible for ensuring that controls to mitigate risks are consistently applied.</p> <p>Risk: Officers are either unaware of expected controls or do not comply with control procedures.</p>	<p>Failure of business objectives Health & Safety Financial Service Delivery Compliance with Regulations Personal Privacy Infringement Reputation damage</p>	Jane Eaton		CRR.05.1 Officer training	Jane Eaton		<p>June 2020 Update:</p> <p>The cultural compliance audit in Building Control is underway as is a follow up review in the Capitol theatre.</p>
				CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Jane Eaton		
				CRR.05.4 "Cultural compliance" Internal Audits identify service based issues and help managers to resolve these.	Jane Eaton		
<p>CRR17 Cause: The External Auditors audit the DC Benefits Grant Subsidy return to the Department for Work and Pensions (DWP) on an annual basis to identify errors.</p> <p>Risk: The Benefit Subsidy claim may be qualified and/or financial losses. HDC has a case load with a particularly high number of working people with many changes of circumstances. Refer to new risk CRR25</p>	<p>Financial Service Delivery Compliance with regulations Reputation</p>	Jane Eaton		CRR.17.1 Continuously monitor the level of quality control checking.	Beccy Salmon		<p>June 2020 update:</p> <p>This is an ongoing risk. The risk remains until Universal Credit comes in for all working age cases. Figures submitted for 2018/19 led to further 40+ checking as in previous years and this is expected to continue in 2019/20. The Benefits Subsidy claim for 2019/20 allows good headroom before the extrapolation limits.</p> <p>High volumes of applications since the start of the COVID-19 recession increases in the risk in the 2020/21 claim.</p>
<p>CRR02 Managerial / Professional Cause: The Council has a legal obligation to protect personal data. The Information Commissioners powers are much more far reaching when they change in May 2018.</p> <p>Risk 1: Major data breach or leak of sensitive information to a third party. Risk 2: Risk of significant ICO fine for non-compliance with new General Data Protection Regulations (GDPR).</p>	<p>People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending</p>	Jane Eaton		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Andrea Curson / Sharon Evans		<p>June 2020 Update:</p> <p>CRR.02.1 This work is ongoing</p> <p>CRR02.3 The Information Security Officer has compiled Information Security Training to be delivered to staff and members. The Head of Technology Services has obtained funding from the LGA to obtain Certified Information Security Accreditation by December 2020.</p> <p>CRR02.4 PSN Accreditation obtained on 8th November 2019 for the year.</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 meet	Sharon Evans						

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
	claims Financial losses Fines from regulators Adverse publicity Reputation damage			every other month to maintain compliance, updates and training			CRR02.5 This is continuing and is ongoing.
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.	People come to harm Complaints/litigation Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale Stress and absenteeism	Glen Chipp		CRR.06.2 Develop and implement a corporate inspection strategy (By 30/06/16).	Robert Laban / Health & Safety Officer		<u>June 2020 Update:</u> CRR.06.2: Completed <ul style="list-style-type: none"> A self-inspections policy has been implemented and is being monitored by the H&S Forum. CRR.06.3 Completed <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. CRR.06.4: Search for a suitable system ongoing and remains an agenda item for the H&S Management Forum until resolved.
				CRR.06.3 Clarity of responsibilities and implementation of a training programme	Robert Laban		
				CRR.06.4 Implement a central repository for risk assessments	Robert Laban / Health & Safety Officer		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR32 Cause: Nationally, NHS Foundation Trusts (and some NHS Trusts) have applied for mandatory charitable relief on their business rates, on the basis that they should be treated as charities.</p> <p>Risk: Decrease in Rateable Value, and potentially backdated refunds to 2010.</p>	<p>Reductions in funding Financial</p>	<p>Jane Eaton</p>		<p>CRR.32.1 Continue to keep a watching brief</p>	<p>Dominic Bradley</p>		<p><u>June 2020 Update:</u></p> <p>In view – no change (see below).</p> <p>A High Court judicial review dismissed the hearing in November 2019. The claimants have appealed to the Court of Appeal. The date of the appeal hearing has not yet been set.</p> <p>One NHS Foundation Trust appeal in the district has been received and was included in the business rates appeals provision at 31 March 2019.</p> <p>No separate provision has been created for appeals that have not yet been received.</p>
<p>Page 104</p> <p>CRR35a Cause: Covid-19 infection</p> <p>Risk: Serious risk to the Health and safety of workers</p>	<p>Failure of Health and safety, Service Delivery, Compliance with regulations, Reputational loss</p>	<p>Jane Eaton</p>		<p>CRR.35a.1 The director led Business Continuity Group to oversee H&S measures (staff H&S representative observes); Ensuring self-isolation and shielding, encourage testing; Regular updates on government advice on keeping safe; Support working from home; Re-modelling of workspaces to ensure social distancing; Provision of sanitary products and PPE; Risk assessments for offices and specific staff; Closure of the Capitol, Museum, Leisure, Sports services, Reception in line with government directions</p>	<p>Robert Laban</p>		<p><u>June 2020 Update:</u></p> <p>Workers in vulnerable groups have been required to stay at home/ work from home; Wherever possible staff continue working from home and extensive guidance, e-learning and support to managing home working is in place, with up to 60 workers returning to offices in June; Offices layout and safety measures changed to ensure personal hygiene, protection and social distancing, including protocol on using shared equipment, kitchens, toilets etc.; Advice to staff issued through weekly newsletter and extensive guidance published on intranet, safe working office guide issued, generic office risk assessment carried out, special risk assessment template in place for vulnerable workers; Procured PPE equipment and provided advice on use; Arranged for extra cleaning</p>

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR33 TO BE EXEMPTED</p> <p><u>Cause:</u> Compensation claim received from L&Q (Landlord of adjacent buildings) in relation to new Piries Place car park works.</p> <p><u>Risk:</u> Potential litigation action from L&Q in relation to Piries Place car park project. Larger sums being claimed than anticipated</p>	Financial Reputation	Barbara Childs		CRR.33.1 Claim is being investigated by HDC Legal	Sharon Evans		<p>June 2020 Update:</p> <p>Ongoing.</p>
<p>CRR34</p> <p><u>Cause:</u> Uncertainty in the UK and World economy. Instability and recent high profile failures, e.g. Carillion</p> <p><u>Risk:</u> Key contractor failure</p>	Financial	Jane Eaton		<p>CRR.34.1 Regularly check accounts of key suppliers</p> <p>CRR.34.2 Check public liability insurance of key suppliers</p> <p>CRR.34.3 Ask for key suppliers' business continuity plans</p> <p>CRR.34.4 Consider whether the failure of a key supplier needs to go in service business continuity plan</p>	<p>Heads of Service</p> <p>Heads of Service</p> <p>Heads of Service</p> <p>Heads of Service</p>		<p>June 2020 Update:</p> <p>The COVID-19 recession makes losses of major contractors more likely. The business continuity group is monitoring progress and currently only one contractor is giving some cause for concern, but it is being closely monitored.</p>
<p>CRR31</p> <p><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>	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	Jane Eaton		<p>CRR.31.1 Review risks as part of project planning process prior to an election</p> <p>CRR.31.2 Training of Internal & external staff</p> <p>CRR.31.3 Review the adequacy of insurance cover for Returning Officers at the start of election process; ensure adequate protection against an Election Petition</p>	<p>Sharon Evans</p> <p>Sharon Evans</p> <p>Sharon Evans</p>		<p>June 2020 update:</p> <p>The Government has postponed all elections until May 2021.</p> <p>To be removed from risk register after Audit Committee</p>

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Report to Audit Committee

15th July 2020

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt



Annual Governance Statement 2019/2020

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 2019/2020. 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 2019/2020.

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 Services, Head of Leisure and Culture, Head of Finance, Head of HR & OD, Head of Technology Services and the Chief Internal Auditor.

Wards affected: All

Contact: Julie McKenzie, Head of Customer Service and Performance, 01403-215306

Attachments:

Appendix A: Annual Governance Statement 2019/2020

Appendix B: Local Code of Corporate Governance

Appendix C: Governance Assurance Framework

Appendix D: AGS Action Plan 2019/2020

Appendix E: AGS Action Plan 2020/2021

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. An additional paragraph regarding COVID-19 has been included in section 12 of the Annual Governance Statement.

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 2019/2020 is attached in Appendix A.

4 Next Steps

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

5 Outcome of Consultations

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

6 Other Courses of Action Considered but Rejected

- 6.1 None.

7 Resource Consequences

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

8 Legal Consequences

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

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

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and

(b) prepare an annual governance statement;

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

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

(i) by a committee; or

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

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

(i) a committee; or

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

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

9 Risk Assessment

9.1 There are no risks associated with this report.

10 Other Considerations

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

Horsham District Council Annual Governance Statement 2019 - 2020

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 2020 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2019/20 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 approved by Council on 12 February 2020 and covers the period 2019 - 2023.

- 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 Leads and to the Overview and Scrutiny Committee.
- Every report submitted to the Cabinet or regulatory committees 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. 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. The operation of the Constitution is under constant review by the Monitoring Officer in consultation with the Governance Committee to ensure that its aims and principles are given full effect.

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. Arising from this in November 2018 the Overview and Scrutiny Committee agreed to establish three working groups: Finance and Performance; Business Improvement and Community, to review these areas in more detail prior to them coming to the overall Overview and Scrutiny Committee. The 2019/20 Overview and Scrutiny Committee overturned the November 2018 recommendations in June 2019. Arrangements for Overview and Scrutiny Committee operated with up to three Task and Finish Groups and no standing sub-committees during the year.

The Council invited in the LGA to carry out a Corporate Peer Challenge in November 2019. The Challenge report suggested a review of the roles of Policy Development Advisory Groups and Overview & Scrutiny take place to ensure there are no overlaps or conflicts. This will take place in 2020/21.

The Council participates in a number of partnerships with other local authorities. In particular 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 LGSS. For the latter part of 2019/20 the Procurement Partnership was expanded to include Mole Valley council on a one-year trial. 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. All office-based officers are required to submit an annual declaration as well as all officers making declarations when needed. The extension of the officer requirement to all office-based officers was introduced in January 2020. Office based officers have now also been asked to declare second jobs and family relationships with other officers and members of the Council.

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 an Independent Person in accordance with the Localism Act 2011 and is looking to appoint a second. The Council has two Parish Representatives 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'. The performance management process for staff changed in March 2020 from an annual appraisal to a minimum of four recorded performance and development discussions each year.

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. A new

post of Information Security Officer was introduced in autumn 2019, a role shared with Crawley Borough Council.

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, IT security and GDPR they must complete before they pass their induction. During 2018/19 the Head of Human Resources and Organisational Development 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. With the election of a new Council in May 2019 a full programme of member induction took place in summer 2019 with additional standards training for District and Parish Councillors in January 2020.

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, 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 surrounding Grants and funding, Parish Councils and areas that need targeted service delivery. 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.

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

- The Council comprises 48 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. In February 2020 the Council approved a new Corporate Plan for the current Council term.
- 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 quarterly 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. This post also fulfils the statutory roles of Money Laundering Reporting Officer and Senior Information Risk Owner.

- 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. This post also carries out the statutory Data Protection Officer role.

11. IMPROVEMENTS DURING THE YEAR

The following improvements to the Governance Framework were recognised during 2019/20:

- 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.
- E-Learning training has continued for staff. Learning and development has focused on helping to discharge the Council's statutory responsibilities in relation to health and safety, General Data Protection Regulation (GDPR), Equality and Discrimination, data security and cybercrime. A roll out of coaching training to all managers has begun and more than half have completed their training.
- All staff who had not previously completed their governance training did so during the year.
- A requirement for all senior managers and all officers involved in procurement to make an annual declaration of personal and financial interests was extended to all office based employees and extended to include family relationships with Councillors and officers and a declaration of other employment.
- Following some physical attacks on our Parking Enforcement Officers body worn cameras and location monitors were introduced for Parking Enforcement Officers and Community Wardens.
- Procurement of new Cloud based computer systems started for Planning and Regulatory Services and telephony during the year. Because these systems are Cloud based, they will, when live, reduce the risk of these services to a disaster in the Parkside building.
- The Director of Community Services made changes to the organisational structure of depot-based services and put an experienced Head of Service into the depot to help address governance compliance issues raised in an internal audit.
- The Council's 'Anti-Fraud and Corruption Policy' has been replaced by a new 'Counter Fraud Strategy and Framework'.
- Delays were identified in trade waste billing to some of our customers, leading to a partial assurance report from Internal Audit. Following identification, this has now been resolved.

12. SIGNIFICANT GOVERNANCE ISSUES

The 2018/19 Annual Governance Statement included an Action plan for 2019/20. Progress against the risks identified is reported in Appendix D

New significant governance issues are reported to the Audit Committee. An internal audit of Cultural Compliance at the Depot received a minimal assurance opinion from the Chief

Internal Auditor. This was reported to the Audit Committee in December. Recommendations for improvements arising from minor governance breaches are included in the new action plan in Appendix E.

In the last two weeks of the 2019/20 year the COVID-19 emergency impacted the governance of the Council. The Sussex Strategic Resilience Forum declared a major incident on 19 March 2020 and the Government put the country into lockdown on 23 March 2020. The lockdown lasted for the remainder of the financial year. The Council cancelled the following meetings during the last two weeks of March: Planning South, an extraordinary meeting of Council, Governance Committee, Standards Committee, Overview and Scrutiny Committee and the Horsham Town Policy Development and Advisory Group. The Council held a remote meeting of the Cabinet on 26 March. The meeting pre-empted the regulations allowing remote decision making that came into effect on 10 April 2020 and the adoption of these into the Council's Constitution on 22 April. Under the Council's Constitution the decisions made at Cabinet could have been made by the Chief Executive in consultation with the Leader without a meeting but the Council adopted the more transparent route.

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

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Appendix B - HDC Code of Corporate Governance

HORSHAM DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE

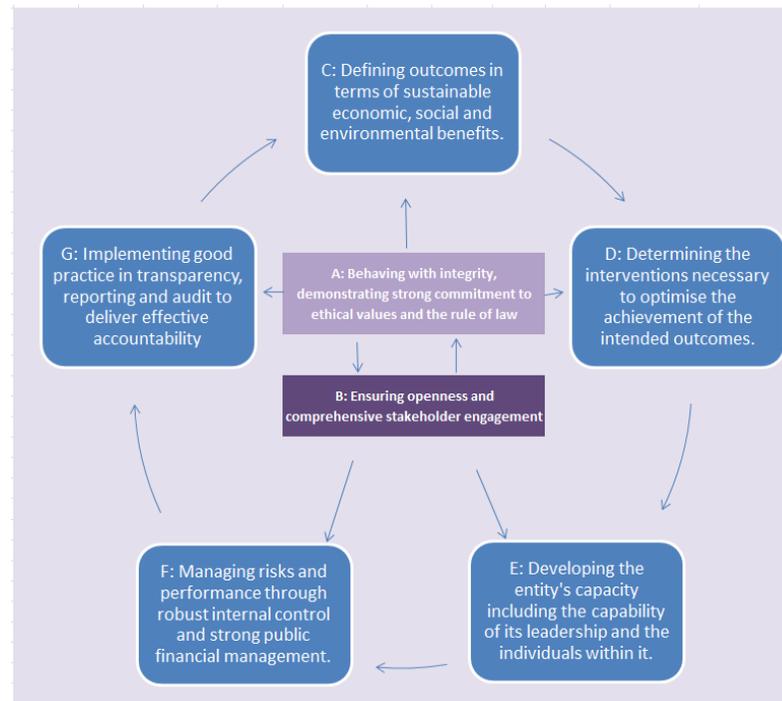
Corporate Governance comprises the systems, processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

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 Counter Fraud Strategy 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 and weekly SLT feedback.
- 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 2019-23 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 Heads of Service 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.
- The Council's Technology Strategy was updated during 2019/20 and the Digital Strategy introduced 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.
- An officer Corporate Governance Group oversees 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 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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GOVERNANCE ASSURANCE FRAMEWORK



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
- MTFS & 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 2019/20**

No.	Area for Improvement	Actions	Responsible Officer	Status Update
1	S151 and Monitoring Officer sign off for Cabinet decision reports on Modern.gov	Roll out of tracking and sign off through Modern.gov	Democratic Services Manager	31/03/20 IN PROGRESS
2	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)	30/06/19 COMPLETED
3	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 COMPLETED
4	Mandatory governance training courses	<p>Ensure all mandated governance courses are completed by all staff. <i>Extended to 31/05/19 for Legal and Elections officers by CE</i></p> <p>Identify the courses needed, annual refresh and implement a refresh programme, reminders to be issued 31/03/20</p>	<p>All Heads of Service</p> <p>Head of HR & OD</p>	<p>31/05/19 COMPLETED</p> <p>31/05/20 ON SCHEDULE</p>
5	Review Council Tax Reduction Scheme non-implementation in 2015	Report on the causes of the Governance Framework issue reported and improvements to the Audit Committee	Director of Corporate Resources	10/04/19 COMPLETED
6	Review of departmental GDPR compliance	<p>Quarterly meetings with GDPR/FOI reps.</p> <p>All Heads of Service to review and update their GDPR Assurance Checklist. Checklist to be circulated January 2020.</p>	<p>All Heads of Service</p> <p>All Heads of Service</p>	<p>31/05/19 COMPLETED</p> <p>31/03/20 COMPLETED</p>

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**APPENDIX E:
ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2020/21**

No.	Area for Improvement	Actions	Responsible Officer	Target Date
1	Potential overlaps and conflicts between the Policy Development Advisory Groups and the Overview & Scrutiny Committee	Governance Committee to review the functions and make recommendations to Council for changes (if any)	Head of Legal & Democratic Services	31/03/21
2	Mandatory governance training courses	Identify the courses needed, annual refresh and implement a refresh programme, reminders to be issued 31/03/20	Head of HR & OD	31/05/20 ON SCHEDULE
3	S151 and Monitoring Officer sign off for Cabinet decision reports on Modern.gov	Roll out of tracking and sign off through Modern.gov	Democratic Services Manager	IN PROGRESS

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Report to Audit Committee

15 July 2020

By the Director of Corporate Resources



INFORMATION REPORT

Not Exempt

Internal Audit reviews of Revenues and Benefits 2019/20

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. The audits, carried out in the third quarter of 2019/20 and reported in the first quarter of 2020/21. Business Rates achieved substantial assurance for the control environment and Council Tax and Benefit achieved good assurance. Business Rates and Benefits achieved substantial assurance for compliance and the Council Tax 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 Tel No. 01403 215300

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 reviewed Council Tax, Housing Benefits and Business Rates during the third quarter of 2019/20 and reported in the first quarter of 2020/21. The reporting delay was due to the LGSS Councils, including Horsham District Council, using the auditors to carry out fraud checks on COVID-19 grant schemes in spring 2020.
- 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. Details

3.1. Council Tax Audit

- 3.1.1. Based on the completion of their fieldwork LGSS internal audit gave good assurance for the control environment covering Council Tax and good assurance for compliance.
- 3.1.2. The auditor reported one main risk for management to consider which was that periodic reviews of discounts and exemptions are not regularly carried out.
- 3.1.3. Management's response was that a single person discount review is scheduled to begin in July 2020 and a further timetable will be created to ensure the remaining discounts are reviewed during the remainder of 2020/21.

3.2. Benefits Audit

- 3.2.1. Based on the completion of their fieldwork LGSS internal audit gave good assurance for the control environment covering Council Tax and substantial assurance for compliance.
- 3.2.2. The auditor reported four risks for management to consider:
 - i. There was no supervisory review of the payments made that are greater than the Local Housing Allowance rate creating a risk of inappropriate payments in excess of the rate.
 - ii. There was no supervisory review of the weekly tenants' payments reconciliation creating a risk of uncorrected unbalanced transactions.

- iii. There was no documented supervisor review of the work done by officers in relation to the recovery of overpayment creating a risk recovery work between accounts and officers may not be of a consistent and adequate level.
- iv. Unrecoverable over-payments were not written-off for over a year creating a risk of impaired governance of the write-off process.

3.2.3. Management's response was they would carry out an urgent review of each of these processes.

3.3. Business Rates audit

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

3.3.2. The auditor reported no risks in the system.

3.4. Business Rates achieved substantial assurance for the control environment and Council Tax and Benefit achieved good assurance. Business Rates and Benefits achieved substantial assurance for compliance and the Council Tax good assurance for compliance.

4. **Next Steps**

4.1 The next internal audit reviews of Council Tax, Business Rates and Benefits will take place in 2020/21.

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 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.

Report to Audit Committee

15 July 2020
By the Director of Corporate Resources
INFORMATION REPORT



Not exempt

Treasury Management Activity and Prudential Indicators 2019/20

Executive Summary

This report covers treasury activity and prudential indicators for 2019/20. At 31 March 2020, the Council had no external debt (£4m in 2018/19) and investments totalled £39.0m (£36.1m in 2018/19) including call accounts and Money Market Funds.

During 2019/20, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.879m (£0.887m in 2018/19) was earned on investments, an average return of 2.1% (2.1% in 2018/19). There was one instance in the year where the Council had an unplanned overdraft overnight with the Council's 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 2019/20.
- ii) Note the actual prudential indicators for 2019/20.

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 2019/20 in accordance with the requirements of the relevant CIPFA Codes of Practice.

Background Papers

"Capital Strategy 2019/20 incorporating Investment and Treasury Management Strategy" - Audit Committee 12 December 2018

"Budget for 2019/20" - Cabinet 24 January 2019

"Treasury Management and Prudential Indicators mid-year report 2019/20"- Audit Committee 18 December 2019

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 2019/20. 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 2019/20. Actual figures have been taken from or prepared on a basis consistent with the Council's Statement of Accounts. It should be noted that those statements are not yet signed off by the auditor.
- 1.3 The original prudential indicators for 2019/20 together with a Capital Strategy and Treasury Management Strategy 2019/20 were agreed by Council on 13 February 2019 having been approved by this Committee on 12 December 2018.
- 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. This is the first annual report including the extended set of indicators.

2 The Council's Capital Expenditure and Financing 2019/20

- 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 12 February 2020 as a part of the budget report.

2019/20	Actual	Estimate	Variance
£m	£000	£000	£000
Total capital expenditure*	10.0	15.6	(5.6)
Resourced by:			
External resources	4.1	2.8	1.3
Internal Resources **	4.4	11.5	-7.1
Debt (unfinanced capital spend)	1.5	1.3	0.2
Total financing	10.0	15.6	(5.6)

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

** Includes use of New Homes Bonus

- 2.2 The capital spend in 2019/20 was under the budget as revised in the 2020/21 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 above 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 2019/20 MRP Policy, as required by Ministry of Housing, Communities & Local Government (MHCLG) Guidance, was approved on 13 February 2019 as a part of the 2019/20 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 is generally in line with the estimate.

Capital Financing Requirement	Actual £m	Estimate £m	Variance £m
Opening balance 1 April 2019	33.2	33.2	0.0
Debt/unfinanced capital expenditure	1.5	1.3	0.2
less Minimum Revenue Provision	(0.8)	(0.9)	0.1
Closing balance 31 March 2020	33.9	33.6	0.3

4 Treasury Position at 31 March 2020

- 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 it has no external debt.
- 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 2020 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 2020		31 March 2019	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Rate Debt	-	-	4.0	3.4%
Investments	(39.0)	2.1%	(36.1)	2.4%
Net borrowing position	(39.0)		(32.1)	

- 4.3 Returns continued at the historically low levels during 2019/20 reflecting the continuing low interest rates being offered by counterparties who are a good credit risk. The current outlook points to a continuation of low rates 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 2019/20 plus the expected CFR movement over 2020/21 and 2021/22. As there is no external debt planned 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 £16m for 2019/20. The table below demonstrates that during 2019/20 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 £0m. There was no gross borrowing at year end.
- 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 at the estimate.

	2019/20
Authorised Limit	£16m
Operational Boundary	£0m
Maximum gross borrowing position in the year	£4.3m
Minimum gross borrowing position in the year	£0m
Financing costs as a proportion of net revenue stream	Actual 0% Estimate 0%

- 5.5 **Interest rate exposure** – This indicator is set to control the exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates is shown in the table below. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

	actual	Limit	Met?
Upper limit one-year revenue impact of a 1% rise in interest rates	£0.1m	£0.2m	✓
Upper limit one-year revenue impact of a 1% fall in interest rates	-£0.1m	-£0.2m	✓

- 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 repaid on the first day of the financial year and had set the percentage range to allow it freedom to refinance the debt if necessary there was no danger of not meeting this indicator. The table below formally shows the 2019/20 estimates and the actual position.

Maximum percentage of borrowing in each age category	upper	lower	actual
Under 12 months	100%	0%	0%
12 months to 2 years	100%	0%	0%
2 years to 5 years	100%	0%	0%
5 years to 10 years	100%	0%	0%
10 years and above	100%	0%	0%

- 5.7 **Total Principal Funds Invested over a year** – 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 limits and actuals on the long-term principal sum invested to final maturities beyond the period end are below and actuals were within limits.

£m	2019/20	2020/21	2021/22
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	12	10	8

Economic and treasury management context for 2019/20

- 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 2019/20, is included as the appendix to this report.

Debt management activity during 2019/20

- 5.9 No new long term borrowing was undertaken. The only temporary borrowing was an unplanned overdraft of £4.3m overnight as a result of an oversight in the redemption of funds to cover outgoing payments. The circumstances were investigated and the instance was a one-off which cost the Council approximately £500 in fees.
- 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 at historic lows (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 2019/20

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.

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. 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. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. As the resources available exceed the CFR the Council holds net investments as shown below.

Balance Sheet Resources	31 March 2020 £m
General fund CFR	-33.8
Less Usable reserves	63.1
Less working capital	9.7
Total	39.0

6.4 The breakdown of investments is

	31.3.19 Balance £m	Movement £m	31.3.20 Balance £m	31.3.20 Rate %
Call accounts	1.9	-1.4	0.5	0.2
Money Market Funds – call	4.0	1.5	5.5	0.4
Money Market Funds – cash plus or short bonds	9.4	-0.1	9.3	0.9
Short-term deposits	4.0	0	4.0	1.7
Pooled Funds - Property	5.0	-0.2	4.8	4.2
Pooled Funds – Multi-Asset	5.0	-0.5	4.5	4.3
Pooled Funds – Equity	3.5	-0.6	2.9	3.5
Pooled Funds – Bonds	3.3	2.2	5.5	2.9
REIT	0	2.0	2.0	1.1
Total Investments	36.1	2.9	39.0	2.1

- 6.5 **Yield** - The investment income budget for the year 2019/20 was £0.892m (£0.706m in 2018/19). The actual interest received was £0.879m (£0.887m in 2018/19). Cash balances were above budget due to slipping of capital spend, revenue underspending and 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% (2.1% in 2018/19) was achieved.
- 6.6 **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.
- 6.7 **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 2019/20 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 £1m with an additional £9m available within a week for the whole year.
- 6.8 **Compliance with strategy** – The strategy was compiled with throughout 2019/20. The unplanned overdraft mentioned above did not lead to any limit being breached as temporary borrowing is allowed within the strategy. Although not in the year in question a breach did occur in on the first day of 2020/21 when an investment of £5m was made with a local authority while the relevant limit was £4m. It was due to a misreading of limits during the early days of remote working when the Council was having to deal with abnormal amounts of cash being routed through the Council for emergency grants. The investment was returned without any issue in May. The detail of the instance will be reported in the half year report for 2020/21.
- 6.9 **Pooled funds** – The Council holds £17.6m in unrated pooled funds comprising equity, bonds and property. These funds yield 3.6% 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. The market reaction to the pandemic led to large falls in equity, bonds and property values which depressed the capital value of these investments to £1.9m 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. Markets have recovered to some extent with the funds value recovering by about £0.9m at the end of June 2020.
- 6.10 **Variable Net Asset Value Money Market Funds** – The Council uses Low Volatility Net Asset Value Money Market Funds for day to day liquidity. The low volatility 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. 0.9%) but where the value of a unit invested can change. On 31 March 2020 the current value of the sum invested was £155,000 less than the purchase price. By the end of June 2020 the values had recovered by £130,000.

- 6.11 **Social Housing REIT** - During the year the Council invested £2m in a REIT specialising in supported social housing. As this was a new REIT dividends were not declared in time to be accrued in year but are expected to start to flow in 2020/21. There was a small capital loss of £40,000 at the year end.
- 6.12 Although the volatility caused by the pandemic is a concern, the Council is in the position to avoid crystallising any capital losses as it has projected it has funds available for three to five year period. In the accounts these unrealised capital losses will not have an impact on the General Fund as the Council can defer losses to the Pooled Investment Fund Adjustment Account until 2023/24.

Non-Treasury investments

- 6.13 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.
- 6.14 At year end the Council held £54.7m of directly owned property and £0.2m loans to local bodies for service purposes. These investments generated £3.7m of investment income for the Council after taking account of direct costs, representing a rate of return of 6.8%. This exceeded the estimated income of £3.5m in the strategy. 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.
- 6.15 The income from these non-treasury investments provides an important contribution to financing of 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 (£21m) which may well not be immune from the well-recognised risks to the high street.

6.16 Below is a breakdown of performance grouping assets by type.

Property by type £millions	31.3.2020 actual			2019/20	
	Purchase cost / 31 st March 2007 value	Gains or losses	Value in accounts	Capital Gain or loss in year	Income Return In year
Retail – legacy	2.6	1.5	4.1	-1.5	5.7%
Retail – Swan Walk	8.4	-6.2	2.2	0.3	6.7%
Light industrial - legacy	9.3	1.9	11.2	2.8	6.4%
Healthcare – legacy	6.5	1.0	7.5	0.3	5.8%
Office - legacy	1.0	0.3	1.3	0.4	6.5%
Retail - recent	14.1	-0.3	13.8	-1.3	7.4%
Light industrial – recent	4.1	-0.8	3.3	0.4	7.1%
Healthcare – recent	0.6	0.2	0.8	0.1	6.3%
Education -recent	1.8	-0.3	1.5	-0.1	10.3%
Leisure - recent	1.5	-0.6	0.9	0.0	4.5%
Total	49.9	-3.3	46.6	1.4	6.8%

6.17 The purchase cost figures above need to be viewed with discretion as no reliable purchase cost is available for the legacy categories and Swan Walk so the base valuation is the value in 2007. Overall capital values held up, with the exception of Swan Walk, which has performed poorly compared to the relatively healthy value in 2007. It should be noted that the values are from the unaudited accounts. In establishing the valuations, the Council's Valuer have formally notified us that there is uncertainty in the valuation due to the pandemic's effect on the property market. This is an avenue open to them following their RICS guidance but does not mean that we cannot rely on the values. A valuation is of course only an estimated snapshot in time.

6.18 The 2019/20 strategy also set a series of performance indicators which are shown below.

Indicator	2019/20 Actual	2019/20 Forecast
Debt to net service expenditure ratio	0%	0%
Commercial income to net service expenditure ratio	35%	34%
Investment cover ratio – net income excl revaluation over interest expense	7,400	175
Benchmarking of returns – ratio of property income yield to IPD property yield index averaged over 5 year period	1.3	1.3
Net income return target	6.8%	7.0%
Operating overheads of property section attributable to commercial property as a proportion of net property income	7.7%	6.7%
Average Vacancy levels	1%	2%
Tenant over 5%	5	5
Weighted Average Unexpired Lease Term (WAULT)	9yr 5m	11yr
Bad debts written off	£0	£10,000

6.19 Most indicators are close to estimate. Investment cover is better than estimated as interest expense was so low. Weighted Average Unexpired Lease Term (WAULT) is slightly down on estimate but still reasonably healthy. Overheads as a percentage of income slightly increased as overall spend on property management was over budget.

6.20 The timing of the pandemic left 2019/20 relatively unaffected but 2020/21 is likely to be profoundly affected, although it is too early to say how far.

6.21 The valuation figures are based on the unaudited accounts. If there are significant changes for the final audited accounts, the changes in treasury management activity and prudential indicators will be reported to the committee.

7 Resource consequences

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

8 Other considerations

8.1 There are no consequences in respect of legal, Crime & Disorder; Human Rights; Equality & Diversity and Sustainability.

Appendix

Economic Background in 2019/20 The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% and then swiftly brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a \$2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial markets: Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March 2020 sterling touched its lowest level against the dollar since 1985. The measures implemented by central banks

and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

Credit background: In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

FORWARD PLAN FOR AUDIT COMMITTEE

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 of 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 (see notes at the end of the document)

To receive the Letter of Representation from the Chief Financial Officer to the External Auditor (see note at the end of the document)

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 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

Note July 2020 because the External Auditor has not yet produced the annual results report, neither this or the Letter of Representation will be available at the July 2020 meeting. They will have to be deferred to an extra meeting later in the summer or the September meeting.

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