

8.	Annual Governance Statement 2015/16	95 - 114
	To receive the Annual Governance Statement for 2015/16	
9.	Treasury Management Activity and Prudential Indicators 2015/16 and request for revision of the 2016/17 Treasury Management Strategy	115 - 126
	To receive the 2015/16 annual report of the Director of Corporate Resources and to approve the revision of the 2016/17 treasury management strategy	
10.	Risk Management - Quarterly Update	127 - 140
	To receive the quarterly report of the Director of Corporate Resources	
11.	Internal Audit - Quarterly Update Report	141 - 148
	To receive the quarterly report of the Chief Internal Auditor	
12.	Urgent Business	
	Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances	
	To consider the following exempt or confidential information:	
13.	Internal Audit – Quarterly Update on Audit Follow-ups	149 - 154

Accounts, Audit & Governance Committee
28 JUNE 2016

Present: Councillors: Godfrey Newman (Chairman), Brian Donnelly, Adrian Lee and Tim Lloyd

Apologies: Councillors: Stuart Ritchie, John Chidlow and Paul Marshall

Also Present: Councillors Leonard Crosbie and Christian Mitchell
Paul King, Audit Director, Ernst & Young
Jane Eaton, Director of Corporate Resources
Dominic Bradley, Head of Finance
Paul Miller, Chief Internal Auditor

AAG/1 **ELECTION OF CHAIRMAN**

RESOLVED

That Councillor Godfrey Newman be elected Chairman of the Committee for the current Council year.

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

RESOLVED

That Councillor Stuart Ritchie be appointed Vice-Chairman of the Committee for the current Council year.

AAG/3 **TO APPROVE THE TIME OF MEETINGS OF THE COMMITTEE FOR THE ENSUING YEAR**

RESOLVED

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

AAG/4 **MINUTES**

The minutes of the meeting held on 23rd March 2016 were approved as a correct record and signed by the Chairman.

AAG/5 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

AAG/6 **ANNOUNCEMENTS**

There were no announcements.

AAG/7 **AUDIT PROGRESS REPORT**

Paul King, Audit Director, Ernst & Young presented a progress report which provided an overview of their plans for the 2015/16 audit and a summary of work undertaken since the last report to the Committee. The report included a timetable showing the key stages for the 2015/16 audit.

AAG/8 **YEAR END OUTTURN REPORT 2015/16**

The Head of Finance presented a report comparing the 2015/16 actual expenditure (outturn) on revenue and capital with the budget approved by the Council in February 2015.

The budget was monitored on a monthly basis and reports were made to Cabinet, Council and the Finance & Performance Working Group throughout the year.

The Council had achieved a £758,000 surplus in 2015/16 after allowing for budgets carried forward to 2016/17 to cover essential expenditure which had been unavoidably delayed. The surplus comprised a combination of income in excess of budget, efficiencies and net underspends during the year, which were summarised in the report.

Capital expenditure amounted to £7,400,000 for the period, against an approved budget of £29,900,000 for the year. The underspend was a result of a number of capital schemes not progressing as far as expected in the 2015/16 financial year. The significant schemes re-profiled into future years, which had been previously reported, were the Hop Oast depot redevelopment, Broadbridge Heath Leisure Centre, the building of temporary accommodation at the Bishopric, a loan to a third party housing association, the remainder of the commercial property investment fund and the postponement of some vehicle replacements whilst a vehicle review was carried out.

It was noted that the Council held a number of ear marked reserves which could be used in-year to fund associated expenditure. Information on the movements between the general fund and these reserves during the year was reported.

The Council was currently forecasting budget deficits from 2017/18 through to 2019/20 and a range of actions were being considered and, where appropriate, implemented to help reduce these future deficit forecasts, including further income generation, efficiency measures and commissioning. Closing these gaps completely would require further investment in transformational projects and, therefore, £500,000 would be transferred from the General Fund reserve balance to an earmarked transformation reserve for this purpose during

2016/17. Expenditure from this transformation reserve would follow the normal financial authorisation and budget process procedures.

As in previous years, the Head of Finance would provide a briefing for Members of the Committee on the annual Statement of Accounts in the week before they were due to be approved at the next meeting of the Committee in September 2016.

RESOLVED

That the following be noted:

- (i) The financial position of the Council as outlined in the report.
- (ii) The revenue budgets carried forwards as approved by the Director of Corporate Resources and outlined in the report.
- (iii) The transfers between the general reserves and the earmarked reserves as outlined in the report.
- (iv) The transfer of £500,000 from the General Fund reserve to an earmarked transformation reserve.

REASON

Monitoring of the Council's budget is essential, so that action can be taken to safeguard the Council's financial position if required.

AAG/9 **RISK MANAGEMENT - QUARTERLY UPDATE**

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

The Senior Leadership Team had reviewed all outstanding actions on the corporate risk register and updated the comments to reflect the current position for each risk. Risk CRR16 (temporary absence of Section 151 Officer) would be removed as the Director of Corporate Resources was now in post.

RESOLVED

That the report be noted.

REASON

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

AAG/10 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since March 2016.

A summary of audit findings in respect of Purchase Cards (which had achieved an overall audit opinion of substantial assurance); Housing Benefits, Cash and Bank, Creditors, Treasury Management, Payroll, Planning Fees and Declarations of Interest (all of which had achieved an overall audit opinion of satisfactory assurance); and Debtors, Capitol Theatre and Data Access Management (all of which had achieved an overall audit opinion of limited assurance) was submitted. Members were advised in particular of actions being undertaken to address the control weaknesses identified in respect of the limited assurance findings.

Members of the Committee would be provided with further information regarding unpaid debtor accounts being dealt with by the legal department including the total value of outstanding debts, recovery rate, type and age of debts and how much was written off. The Head of Finance would also provide some summary information on the debt balances and bad debt provision within the statement of accounts

RESOLVED

That the summary of audit and project work undertaken since March 2016 be noted.

REASONS

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

AAG/11 **ANNUAL INTERNAL AUDIT REPORT 2015/16**

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

- Provide a statement on conformance with the Public Sector Internal Audit Standards;
- Summarise the effectiveness of internal audit work; and
- Summarise the work undertaken by Internal Audit during 2015/16 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.

The Council's Internal Audit Service operated in accordance with the Public Sector Internal Audit Standards, which required the Chief Internal Auditor to undertake a self-assessment of the internal audit service against a Quality Assurance and Improvement Plan checklist the results of which were outlined as part of the Annual Audit Report. It was noted that the Internal Audit Team

had maintained its independence throughout 2015/16 in accordance with the Audit Charter.

The Internal Audit team used a risk based approach when determining the annual audit plan and undertaking audit assignments. In order to respond to new risk areas identified during the year, the audit plan was sufficiently flexible to allow for additional audits to be undertaken. During the year, 87% of audits had been completed against a target of 85%. Details of progress against the annual plan for 2015/16, the implementation of agreed actions, reporting and management feedback were reported.

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

In response to Members' queries, the Chief Internal Auditor explained how the areas for inclusion in each annual audit plan were determined and the follow up procedures for completed audits.

RESOLVED

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

REASONS

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

AAG/12 **DRAFT ANNUAL GOVERNANCE STATEMENT**

The Director of Corporate Resources submitted the Annual Governance Statement (AGS) in draft form for Members' information. The annual review of the Council's governance, risk management and internal control arrangements had been undertaken to support the production of the Annual Governance Statement for 2015/16. This review included information and assurance gathering processes to ensure that the published Annual Governance

Statement was correct as well as a review of the Council's Governance framework against the best practice framework devised by the Chartered Institute of Public Finance Accountants/Society of Local Authority Chief Executives.

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

The AGS would be submitted for final approval by the Committee at its next meeting in September.

RESOLVED

That Members pass any comments on the draft Annual Governance Statement for 2015/16 to the Director of Corporate Resources so they can be incorporated prior to the formal approval of the Statement at the next meeting of the Committee.

REASON

To allow Members the opportunity to comment.

AAG/13 **URGENT BUSINESS**

There were no urgent matters to be considered.

AAG/14 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED

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

AAG/15 **AUDIT FOLLOW-UPS**

The Chief Internal Auditor submitted a report summarising progress since March 2016 on the implementation of actions in respect of audits undertaken in 2015/16, 2014/15, 2013/14 and 2012/13.

RESOLVED

- (i) That progress in terms of agreed actions implemented since March 2016 be noted.
- (ii) That the position in respect of the specific areas highlighted by the Chief Internal Auditor be noted.

REASON

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

The meeting closed at 7.12 pm having commenced at 6.00 pm

CHAIRMAN

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Horsham District Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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Contents

1. Executive summary.....	0
2. Responsibilities and purpose of our work	2
3. Financial statements audit	3
4. Value for money.....	6
Appendix A – Uncorrected audit differences	9
Appendix B – Corrected audit differences	10
Appendix B – Outstanding matters.....	11
Appendix C – Independence.....	12
Appendix D – Auditor fees	13
Appendix E – Required communications with the Accounts, Audit and Governance Committee.....	14

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

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

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Accounts, Audit and Governance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Horsham District Council for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items we will issue an audit opinion in the form which appears in the financial statements presented for approval</p> <ul style="list-style-type: none"> • Receipt of the signed management representation letter <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Council's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We have performed the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We had no issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>We have identified one unadjusted audit difference within the draft financial statements, which management have chosen not to adjust. We ask the Accounts, Audit and Governance Committee to consider approving management's rationale as to why these corrections have not been made and, if approved, include this in the Letter of Representation. Appendix A to this report sets out the uncorrected misstatement. We do not consider this to be material to our audit opinion.</p>
Scope and materiality	<p>In our Audit Plan presented at the 23 March 2016 Accounts, Audit and Governance Committee meeting, we communicated that our audit procedures would be performed using a materiality of £1,455 million. We have reassessed this based on the actual results for the financial year and have increased this amount to £1.551 million. The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with prior years.</p> <p>The threshold for reporting audit differences which impact the financial statements has also increased from £72,500 to £77,500.</p> <p>We carried out our work in accordance with our Audit Plan.</p>
Significant audit risks	<p>We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan:</p> <ul style="list-style-type: none"> • National Non-Domestic Rates (NNDR) rateable value appeals provision • Risk of management override. <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.</p>
Other reporting issues	<p>We have no other matters we wish to report.</p>

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 of which you are not aware.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Paul King

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

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

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>National Non-Domestic Rates (NNDR) rateable value appeals provision</p> <p>The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme half of the business rates collected by councils are retained locally and half paid over to central government.</p> <p>The level of NNDR paid on business property depends on its 'rateable value'. This is calculated by the Valuation Office Agency (VOA).</p> <p>Where local businesses believe the current value for business properties is wrong they can:</p> <ul style="list-style-type: none"> • appeal to the VOA and ask them to correct details • appeal the rates if the local business and the VOA can't agree. This appeal is heard by a valuation tribunal. <p>Where rating appeals are successful, monies to settle appeals will come out of the Council's funds and will also impact on other local public bodies that precept on the Council. As appeals are to the VOA, authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.</p> <p>The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.</p> <p>The Council has changed the method for calculating the provision for 2015-16, dispensing with the services provided by the external expert used in previous years. At this stage it is not clear how this might affect the Council's approach to the estimation of the provision and consequently the impact on the financial statements. Given also the significance and degree of estimation in determining the provision we have at this stage assessed this as a significant risk.</p>	<p>We sought to understand and assess the reasonableness of the Council's methodology in estimating any planned provision in respect of rateable value appeals at the balance sheet date.</p> <p>This involved consideration of both the completeness and accuracy of the data on the number of appeals and the basis for the assumptions made by the Council on the likelihood of success.</p>	<p>The overall methodology of calculating the provision is reasonable, however, due to issues in the calculation of the provision it is overstated by £394,652. The Council have considered and declined to amend the provision, given the high level of judgement required to estimate the provision and the fact that it impacts in a large number of areas throughout the statements.</p> <p>There is therefore an uncorrected overstatement in the increase in the Collection fund of the provision being overstated by £394,652. And the impact on the Council's own balance sheet is an overstatement in their share of the provision of £157,861 and a corresponding overstatement of the Collection fund balances that go through the CIES.</p>

Risk of management override

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

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Reviewed accounting estimates for evidence of management bias; and
Evaluated the business rationale for any significant unusual transactions.

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

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We wish to report the following matter:

- The Council produced excellent financial statements and working papers with no audit amendments required.
- There was a delay in obtaining key supporting working papers for the NDR appeals provision.

Control themes and observations

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

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

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

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

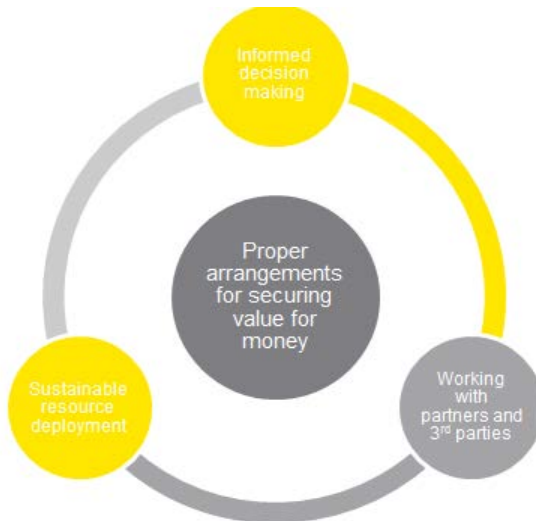
Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters to be tabled at the Accounts, Audit and Governance Committee on 13 September 2016.

Whole of Government Accounts

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

4. Value for money



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

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

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

Overall conclusion

We did not identify any significant risks in relation to these criteria.

We identified one significant risk in relation to these arrangements:

- **Sustainable Resource Development:** Local government continues to face considerable financial challenges and Horsham District Council is not immune from these pressures.

We are aware from our review of the Council's budget monitoring for 2015-16 to quarter 3 that it is forecasting a budget underspend of around £73,000 for the year. The Council has also set a balanced budget for 2016-17.

However, the financial position in future years is far more challenging and achieving financial balance will become progressively harder. The current medium term financial plan is predicting a significant budget gap over the following three years.

We have performed the procedures outlined in our Audit Plan. This work was informed by:

- A detailed review of how the medium term financial plan is created;
- Examination and challenge the key assumptions used by the Council to create the medium term financial plan; and
- A review of the extent to which the Council is dependent upon future savings. For significant savings reviewed the estimated savings in order to ensure that the Council's assumptions are reasonable.

We did however identify the following areas to bring to your attention:

The Council achieved a greater surplus than initially budgeted and its financial position remains sound at the end of 2015/16. The Council has a good recent record of identifying and making savings, and in meeting its budget. Despite initially predicting budget gaps for 2015/16 and 2016/17, the Council were able to set balanced budgets for both periods, including a small predicted surplus, which they exceeded in 2015/16. While recognising that incrementally savings become harder to achieve, the Council's recent historic performance in delivering savings and achieving its budget does nevertheless provide some evidence of its ability to deliver savings in the future. However, the levels of savings required in 2017/18 onwards, are substantially more than the levels the Council has had to achieve in the past.

In common with most public sector bodies, recent government spending reviews and financial settlements have had a significant impact on the Council. The financial challenge facing the Council is clearly set out in its Medium Term Financial Strategy (MTFS) which was updated as part of setting the Budget for 2016/17 for the finance settlement which was received in December 2015. The MTFS covers the four year period 2016/17 to 2019/20 and sets out key planning assumptions and resources projections together with information about key areas for capital and revenue investment and financing and treasury management strategies. The key driver of the financial projections in the MTFS continues to be the impact of reductions in central government funding over the medium term. The estimates reflected in the MTFS include significant reductions in both Revenue Support Grant and specific grants over the period. There is explicit recognition that there remains some uncertainty over the timing and scale of future funding reductions.

The MTFS forecasts budget gaps in the next three years, increasing from £1.4m in 2017/18 to £3.8m in 2019/20. This is after inclusion of part of the New Homes Bonus (NHB) within the Council's budget to fund revenue expenditure, decreasing from £0.8m in 2017/18 to £0.2m in 2019/20. The Council recognize the uncertainty over the future of the NHB, although they have assurance of receipt of this for 2016/17 and are therefore working to reduce the reliance on the NHB by bridging the budget gap through other initiatives.

Although we remain satisfied that the MTFS has been prudently updated in the light of the current economic climate and that the assumptions underpinning it remain reasonable, it does make clear the significant scale of the financial challenge faced by the Council. The Council have reserves to meet the budget gap in the short-term, and has identified areas where savings can be made to close the gap, increasing income by £1.9m, further business transformation and efficiencies of £1.4m and other savings of £1m, totalling £4.3m. Whilst these measures are contingent on being adopted, they do indicate that the Council is looking pro-actively at ways to close the gap. However, there are still many decisions for officers and members to make in order to bring about the required savings within the current period of the MTFS if the Council is to retain a sustainable financial position.

From the work we have completed we have not identified any significant weaknesses in the Council's arrangements.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Other matters to bring to you attention

We have no other matters to bring to your attention.

Appendix A – Uncorrected audit differences

The following differences, which are greater than £77,500, have been identified during the course of our audit and have not been considered material by management or by us for adjustments. We are bringing them to the Committee's attention to enable you to form your own view on these items.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £	Comprehensive income and expenditure statement (Decrease) / Increase £
Provisions	157,861	
Taxation and non-specific grant income	-	(157,861)
The NDR appeals provision is overstated due to two errors in the calculation and inclusion of an element in the provision for appeals not yet received.		
Cumulative effect of unadjusted differences	157,861	(157,861)

Appendix B – Corrected audit differences

No corrected differences, which are greater than £77,500, have been identified during the course of our audit which warrant communicating to you.

Appendix B – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Letter of representation	To be tabled at Accounts, Audit and Governance Committee on 13 September 2016.	Management and Accounts, Audit and Governance Committee
Statement of Accounts	<ul style="list-style-type: none"> ▶ Approval of accounts by Accounts, Audit and Governance Committee ▶ Accounts re-certified by Director of Corporate Resources 	Management and Accounts, Audit and Governance Committee and EY
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Any other outstanding work	Management and EY to work together to complete any outstanding work	EY and management

Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 22 February 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Accounts, Audit and Governance Committee on 13 September 2016.

We confirm that we have met the reporting requirements to the Accounts, Audit and Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 22 February 2016.

Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2016/17 £	Scale Fee 2016/17 £	Variation comments
Total Audit Fee – Code work	50,094	50,094	
Certification of claims and returns	12,360	12,360	

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work..

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix E – Required communications with the Accounts, Audit and Governance Committee

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

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Horsham District Council's ability to continue as a going concern for the 12 months from the date of our report
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Accounts, Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	By correspondence with the Chair of the Accounts, Audit and Governance Committee dated 21 July 2016 Audit results report
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Management has not refused for us to request external confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Accounts, Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Accounts, Audit and Governance Committee may be aware of 	<p>We have not identified any material instances of non-compliance with law and regulation.</p> <p>We made written enquiries to managements and those charged with governance. We also have also received representations as part of the letter of management representation. No instances of material non-compliance have been disclosed by either management or those charged with governance.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial Audit Plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan and Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Annual Certification Report – to be issued January 2017

EY | Assurance | Tax | Transactions | Advisory

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

13 September 2016

This letter of representations is provided in connection with your audit of the financial statements of Horsham District Council (“the Council”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Horsham District Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by the auditor because of the high level of judgement required to estimate the provision and the fact that it impacts in a large number of areas throughout the statements.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 8 September 2016.

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

E. Liabilities and Contingencies

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

F. Subsequent Events

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

G. Use of the Work of a Specialist

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

H. Accounting Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.

2. We confirm that the significant assumptions used in making accounting estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Retirement benefits

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

Signed on behalf of Horsham District Council

I confirm that this letter has been discussed and agreed by the Accounts, Audit and Governance Committee on 13 September 2016

Signed:

Name: Jane Eaton
Position: Director of Corporate Resources
Date: 13 September 2016

Signed:

Name: Godfrey Newman
Position: Chairman, Accounts, Audit and Governance Committee
Date: 13 September 2016

Communication schedule for uncorrected misstatements

Entity: Horsham District Council

Period Ended: 31-Mar-2016

Currency: £

Uncorrected misstatements			Analysis of misstatements Debit/(Credit)							Income statement effect of the prior period		
No.	W/P ref.	Account	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period		Prior period Debit/(Credit)	Non taxable
		(misstatements are recorded as journal entries with a description)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non taxable	
Factual misstatements:												
Projected misstatements:												
Judgmental misstatements:												
		The NDR appeals provision is overstated due to an error in the calculation, inclusion of an element in the provision for appeals not yet received and calculating the surgeries element of the provision in an inaccurate method.										
		Collection fund appeals provision overstated by £394,652										
		Collection fund deficit overstated by £394,652										
		The NDR appeals provision is overstated due to an error in the calculation, inclusion of an element in the provision for appeals not yet received and calculating the surgeries element of the provision in an inaccurate method.										
		CIES expenditure understated by								(157,861)		
		Balance sheet provision understated by			157,861							
Total of uncorrected misstatements before income tax			0	0	157,861	0	0	0		(157,861)		0
Total of uncorrected misstatements			0	0	157,861	0	0	0		(157,861)		0
Financial statement amounts												
Effect of uncorrected misstatements on F/S amounts			0.0%	0.0%	0.0%	0.0%	0.0%			0.0%		0.0%
Memo: Total of non-taxable items (marked 'X' above)										0		0
Uncorrected misstatements before income tax								0.0%	(157,861)			0
Less: Tax effect of misstatements at current year marginal rate									0			0
Uncorrected misstatements in income tax									0			0
Cumulative effect of uncorrected misstatements after tax but before turnaround								0.0%	(157,861)			0
Turnaround effect of prior period uncorrected misstatements												
										After tax		Memo: Before tax
All factual and projected misstatements:										0		0
Judgmental misstatements:										0		0
Cumulative effect of uncorrected misstatements, after turnaround effect								0.0%	(157,861)			
Current year income before tax												
Current year income after tax												0

Do not remove any categories of misstatements above, even if there are no misstatements; removing these categories may adversely affect the formulas or template functionality.

Page 35



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Report to Accounts, Audit and Governance Committee

13th September 2016

By the Director of Corporate Resources

DECISION REQUIRED



**Horsham
District
Council**

Not Exempt

Statement of Accounts 2015 /16

Executive summary

It is a legal requirement of the Accounts and Audit (England) Regulations 2015 that the Statement of Accounts is approved by a resolution of the Council or the relevant Committee of the Council by 30th September. The Scheme of Delegation to Committees within the Council constitution (Part 3C Part 2.1) delegates the responsibility the Accounts, Audit and Governance Committee to consider and approve the Council's statement of accounts.

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

Recommendations

That the Committee is recommended:

- i) To approve the 2015/16 Statement of Accounts

Reasons for recommendations

- i) It is a requirement of the Accounts and Audit (England) Regulations 2015 that the Statement of Accounts are approved by 30th September.
- ii) The external auditors plan to issue an unqualified audit opinion on the financial statements for 2015/16.

Background papers: Consultation with the external auditors

Wards affected: All

Contact: Emma Thomas, Corporate Accountant, extension 2312

Background Information

1 Introduction

- 1.1 It is a requirement of the Accounts and Audit (England) Regulations 2015 that the statutory Statement of Accounts is approved by a resolution of the Council or the relevant Committee of the Council by 30th September. Under The Scheme of Delegation to Committees within Part 3C of the Council constitution, the matter of considering and approving the statement of accounts has been delegated to the Accounts, Audit and Governance Committee. This report provides background information to the financial statements.

2 Background

- 2.1 The financial statements have been prepared following the requirements of the CIPFA Code of Practice on Local Authority Accounting 2015/16 which are based on International Financial Reporting Standards. The accounts have been subject to audit by Ernst and Young LLP who intend to issue an unqualified opinion.

3 Details

- 3.1 The Statement of Accounts 2015/16 are attached to this report.
- 3.2 Financial and other specific issues are dealt with under separate headings.

4 Next steps

- 4.1 The committee is asked to approve the Statement of Accounts 2015/16.

5 Outcome of consultations

- 5.1 Not applicable.

6 Other courses of action considered but rejected

- 6.1 Not applicable.

7 Resource consequences

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

8 Legal consequences

- 8.1 There are no legal consequences arising from this report.

9 Risk assessment

- 9.1 There are reputational risks to the Council if the accounts are not approved by the statutory deadline of 30th September

10 Other considerations

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



**Horsham
District
Council**

Statement of Accounts 2015/16

Audited

Contents

	Page
Narrative Statement	2
Statement of Responsibilities	8
Independent Auditors Report and Opinion	9
Core Financial Statements :	
- Movement in Reserves Statement	11
- Comprehensive Income and Expenditure Statement	12
- Balance Sheet	13
- Cash Flow Statement	14
Notes to Core Financial Statements	15
Collection Fund Revenue Account	52
Glossary of Terms	54

Narrative Statement

INTRODUCTION

Welcome to Horsham District Council's Statement of Accounts for 2015/16. The accounts provide a record of the Council's financial position and performance for the year. They are presented on an International Financial Reporting Standards (IFRS) basis having been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. They cover the reporting period 1 April 2015 to 31 March 2016.

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

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

HORSHAM DISTRICT

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

There is a strong administrative and service sector, together with a thriving retail sector with more than 4,000 commercial premise based businesses plus a number of small businesses run from residential properties.

THE DISTRICT PLAN

Due to National, District and Parish election being held in May 2015 the Council adopted a one year plan; the Interim Corporate Priorities 2015/16. A new four year Corporate Plan 2016-19 has been developed following the elections. The Council set out its aims under six headings:

- **Economic Development** – planning for a successful economy with high levels of employment
- **Efficiency and Taxation** – delivering excellent value and high performance
- **Arts, Heritage and Leisure** – building an arts, leisure and cultural reputation that also supports our economy
- **Living Working Communities** – working together to support the life of local communities
- **Environment** – working towards a better environment for today and tomorrow
- **Safer and Healthier** – improving health and wellbeing

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

PERFORMANCE DURING 2015/16

The Council monitors financial and non-financial performance indicators on a monthly basis. Overall, it has performed well across the key indicators and the outturn at 31 March 2016 is comparable to the performance at 31 March 2015. Where comparable, 18 indicators improved compared to the previous year and 14 had worsened. Improvements have been made in the processing of minor and major planning applications across the suite of indicators, complaints have reduced by 21%, staff turnover and staff sickness levels have both fallen and responses to Freedom of Information requests within 20 days improved significantly from 84% to 92%. Council Tax collection levels at 98.7% and business rate collection levels at 97.5% were maintained, although remain slightly below target.

Only 10% (12.5% in 2014/15) of performance indicators were outside the target range and work has already taken place that should improve the processes around the percentage of planning appeals allowed which should also have a positive impact on reducing the award of planning appeal costs in the future. The recycling rate remains slightly outside the target range.

BUDGET 2015/16

The Council approved a net General Fund Revenue budget for 2015/16 of £13.0m at the formal meeting on 25th February 2015.

	£'000
Net expenditure	13,000
Funded by:	
New Homes Bonus Grant	1,166
Council Tax	7,959
1% Council Tax Freeze Grant	83
Revenue Support Grant	1,603
Business rates baseline Funding	1,862
Additional Business rates	400
Payment to parishes	(82)
Collection Fund surplus	184
Total Funding	13,175
(Surplus) / Deficit	(175)

In 2012/13, it was agreed to transfer any sums in excess of the agreed £1.166m revenue contribution of New Homes Bonus to the New Homes Bonus reserve and in 2015/16, an additional £1.770m of New Homes Bonus was paid as a result of the significant new house building across the district, bringing the total reserve to £3.701m at 31 March 2016. Contributions to and from reserves included £0.184m estimated surplus on the Council Tax Collection Fund and £0.175m to the General Fund Balance.

THE FINANCIAL STATEMENTS

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

- **The Movement in Reserves Statement (MiRS).** This shows the movement in reserves during the year, split between those reserves which are available for the Council to spend (usable reserves) and those that have been created to reconcile the technical aspects of accounting (unusable reserves).
- **The Comprehensive Income and Expenditure Statement (CIES).** This consolidates the gains and losses experienced by the Council during the year.
- **The Balance Sheet.** This shows the Council's financial position at 31 March each year. The top part of the statement shows the assets and liabilities of the Council and the lower part shows the Council's reserves.
- **The Cash Flow Statement.** This summarises the changes in cash and cash equivalents during the year.

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

REVENUE OUTTURN FOR 2015/16

The Council monitors its expenditure and income against budget on a monthly basis and reports to Cabinet regularly and to its Finance and Performance Working Group quarterly. The revenue and capital outturn report for 2015/16 was reported to the Accounts, Audit and Governance Committee in June 2016.

The variance against original budget was reported as a surplus of £0.759m. There was £0.390m of revenue budgets, intended for projects in 2015/16, that were unspent and carried forward to 2016/17. After allowing for the budgeted transfers to reserves and other transfers to earmarked reserves, the outturn surplus has reduced the in-year deficit on the General Fund to £0.220m as shown below.

	£000
Outturn variance reported	(759)
Budgeted transfer to General Fund Balance	175
Budgets brought forward from 2014/15 (including repairs and renewals)	914
Supplementary estimates	117
Budgets carried forward to 2016/17	(390)
Underspend of MRP against budget	(13)
Other adjustments	<u>176</u>
Deficit on General Fund (after transfers to earmarked reserves)	220

While the General Fund shows a net deficit of £0.220m on expenditure and income transactions in the year, the Comprehensive Income and Expenditure Statement shows a surplus for the year of £16.048m, comprising a deficit on the provision of services of £2.969m and a surplus of £19.017m 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 deficit of £0.220m 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 £2.865m is a charge for the use of assets that reflects the notional consumption of assets during the year and losses of £0.512m have been debited on the revaluation of assets.
- ii) **A charge for revenue expenditure funded from capital under statute (REFCUS).** A charge of £3.210m 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 £0.835m have been credited in accordance with proper accounting practice. However these grants are used to fund the Council's capital programme and do not fall into the General Fund.
- iv) **A credit for pensions** of £1.725m representing the difference between the accounting cost of pensions (as estimated by the Pension Fund actuary in accordance with IAS19) and the actual employer contributions paid to the West Sussex Pension Fund. Further details of the movement in the pension fund liability are shown in Note 33.
- v) **A gain on the disposal of assets** of £2.027m. 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 2015/16 the amount set aside was £0.787m. This is a charge to the General Fund which is not shown in the Comprehensive Income and Expenditure Statement.

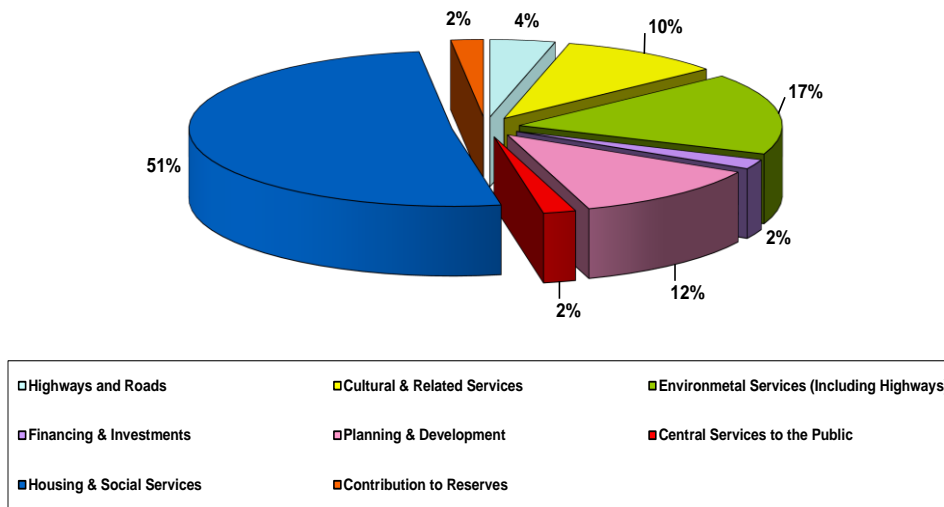
While the Comprehensive Income and Expenditure Statement shows the true accounting position for the year, it is the General Fund position which is the more important for residents of the district. Certain items that are charged under accounting rules, such as depreciation, impairment, capital grants 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
Deficit on General Fund	220
(Income)/expenditure direct from earmarked reserves	116
Transfers (to)/from earmarked reserves	(1,491)
Accounting adjustments	
Charge for depreciation	2,865
Revaluation of non-current assets	512
Revenue expenditure charged to capital	3,210
Capital grant income	(835)
IAS19 pension costs	1,725
Gain/loss on disposal of assets	(2,027)
Minimum Revenue Provision	(787)
Share of in year surplus on the Collection Fund	(588)
Other technical adjustments	49
Surplus on provision of services per CIES	<u>2,969</u>

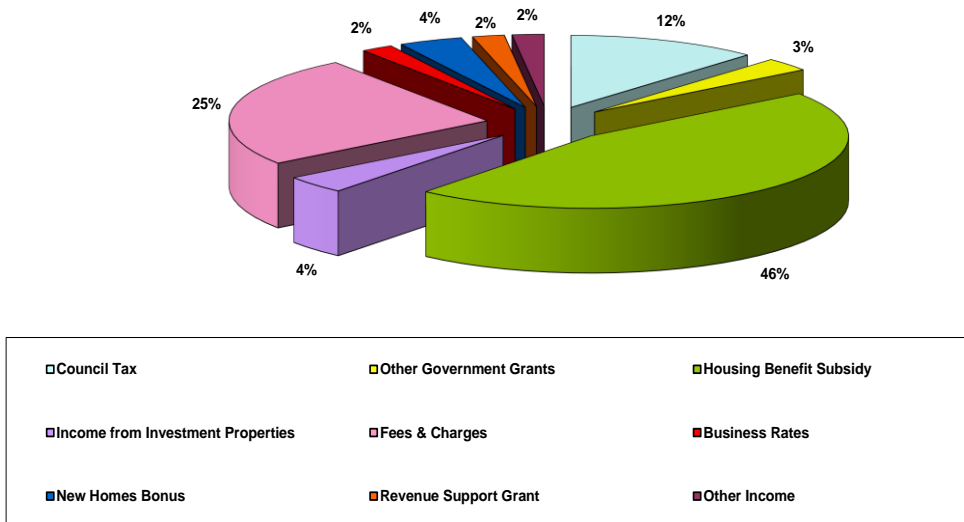
NET COST OF SERVICES - HOW THE MONEY WAS SPENT

In 2015/16 the total expenditure incurred by the Council was £69m; this is excluding non cash costs charged to the services such as depreciation, impairment costs and pension adjustments. The chart below categorises this expenditure in percentage terms across services.



SOURCES OF FINANCE OF THE COUNCIL'S REVENUE ACTIVITIES

The Council has a number of financing sources including taxation, income from fees and charges and grant funding. The total value of funding for 2015/16 was £69m and chart below provides a percentage breakdown between sources:



CAPITAL EXPENDITURE

Against the original capital plan of £29.9m in 2015/16 which included an unspent budget of £7.2m from 2014/15, the Council's capital spending for the year was £7.4m across a range of over 40 capital schemes including £1.7m on a commercial property investment.

A total of £22.5m has been re-profiled into 2016/17 and later years including a further £3.3m of the £5m commercial property investment fund, £1.3m for vehicle replacement fleet which was on hold in 2015/16 pending a full review of the fleet, £3.5m of the £4.5m Hop Oast depot redevelopment scheme which will now commence in June 2016 and delays with planning permission to the £2.9m temporary accommodation build in the Bishopric which meant that only £0.8m was spent in year. A £7m loan, agreed in principle with Saxon Weald for the redevelopment of Winterton Court in Horsham for affordable housing was also re-profiled, following initial planning permission for the site being refused.

The capital expenditure in the year was financed by £2.366m usable capital receipts, £3.004m Government grants and other contributions and £2.056m was unfinanced.

FINANCIAL POSITION AT 31 MARCH 2016

The net worth of the District Council is shown in the Balance Sheet. It has increased by £16.048m from 31 March 2015. This is as a result of an increase in the Council's unusable reserves of £11.307m, which includes accounting adjustments related to non-current assets and pensions of £10.719m and a decrease in the Council's share of the Collection Fund deficit of £0.588m.

Property, Plant and Equipment value has decreased by £2.099m. This movement includes the sale of the Council office buildings and asset revaluations during the year.

The net pension liability has decreased by £11.537m to £1.875m, reflecting an increase in the net discount rate during the year. This liability is a snapshot actuarial assessment at the Balance Sheet date and does not mean that the pension fund will not be able to pay benefits due in the future. Asset values of the fund can increase in the future and changes to the Scheme have been agreed from 1 April 2014. A full triennial valuation of the Fund was undertaken at 31 March 2013 and revised employer contribution rates have been agreed for the three years from 1 April 2014.

Usable Reserves have increased by just over £4.741m to £26.592m; the main increase of £3.586m was within capital reserves with a smaller increase in revenue reserves of £1.155m. The total capital reserves will be used to fund the future capital programme. Further details on reserves can be found in the notes to the accounts.

The Council has a single £4.0m loan which is repayable over 10 years until March 2019 at an interest rate of 3.38%. No new long term borrowing was entered into in 2015/16.

FINANCIAL OUTLOOK

Despite ongoing financial pressures from the reduction in central government funding, the Council has managed to set a balanced budget and has done so again in the forthcoming year of 2016/17. It has done this in 2016/17 through internal efficiencies and income generation such as; increasing the charge for its green waste service for the first time since it was introduced in 2013/14, introducing a flat rate parking charge for Sunday and Bank Holiday parking and an inflationary increase in Council Tax.

Further ahead, the Medium Term Financial Strategy will be revisited and will elaborate further on how the Council expects to deliver future savings and generate income to tackle the projected deficits over the period 2017/18 to 2019/20. If no action is taken, the deficit by 2019/20 is forecast to be £3.8m. Closing the gap is likely to happen through a combination of a range of measures that are currently being appraised, including the next phase in Business Transformation - "Future Horsham", commissioning, shared services with other councils, procurement, income generation, other efficiency measures and also potentially some reductions to discretionary services. The Director of Corporate Resources regularly reports to the Council on the basis of the latest information available, so that the risks and opportunities can be considered and evaluated. The future impact of the United Kingdom's decision to leave the European Union will be included in these local level considerations as and when it becomes known.

Whilst deficits are currently projected for the period 2017/18 to 2019/20, the Council's cash flow remains healthy. At the current year-end, the Council has £5.3m of cash and cash equivalents. The size of the annual deficits to 2019/20 are exceeded by the level of general reserves. The value of investments ended the year at £26.4m and generated an investment yield of 0.77%.

Over the last two years, the Council has made some significant decisions which will affect the future use of the authority's resources and will impact on the financial position of its Balance Sheet. The following significant capital expenditure is planned in the next 2 years:

Broadbridge Heath Leisure Centre – in November 2015, the Council agreed an enlarged £12.3m capital budget for the redevelopment of this site, with the aim of opening the new facility in spring 2018.

Redevelopment of the Hop Oast depot - the current depots at Horsham and Storrington are at the end of their physical lives and the Council is investing £4.5m in consolidating the two sites into one up to date facility which will better address the needs of the increased household numbers and service demand.

Temporary accommodation - the Council has approved a £2.9m budget for the purchase of seventeen apartments in Horsham town to be used as affordable short stay temporary accommodation for homeless households. The decision supports the statutory duty the Council has to house the homeless and it reduces the need to place households in bed and breakfast.

The vehicle replacement programme has a capital budget of £4.8m in 2017/18 which includes the replacement of the waste collection vehicles which were purchased in 2009 and 2010 and will reach the end of their useful life.

CHANGES IN ACCOUNTING POLICIES

There have been no significant changes to the accounting policies in 2015/16.

NOTES TO THE ACCOUNTS

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

ANNUAL GOVERNANCE STATEMENT

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

FURTHER INFORMATION

Further information on the contents of this publication can be obtained from the Director of Corporate Resources, Parkside, Chart Way, Horsham, West Sussex RH12 1RL.

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 2015/16 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 2016.

Jane Eaton C.P.F.A.
Director of Corporate Resources
Date: 13 September 2016

APPROVAL OF THE ACCOUNTS

I hereby certify that the Statement of Accounts 2015/16 have been approved by the Council's Accounts, Audit and Governance Committee under delegated powers at a meeting held on 13 September 2016.

Councillor Godfrey Newman
Chairman of the Accounts, Audit and Governance Committee
Date: 13 September 2016

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

We have audited the financial statements of Horsham District Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- The related notes 1 to 35; and
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Director of Corporate Resources and auditor

As explained more fully in the Statement of the Director of Corporate Resources Responsibilities set out on page 8, the Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Horsham District Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Conclusion on Horsham District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

Auditor's responsibilities

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Horsham District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

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

Paul King
for and on behalf of Ernst & Young LLP, Appointed Auditor
Southampton
13 September 2016

Movement in Reserves Statement

	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Note
	£000	£000	£000	£000	£000	£000	£000	
Balance at 1 April 2014	(9,420)	(5,253)	(388)	(5,201)	(20,262)	(89,141)	(109,403)	
Movement in reserves during 2014/15:								
Restated (Surplus) or deficit on provision of services	*(1,987)	0	0	0	(1,987)	0	(1,987)	27
Restated Other Comprehensive Expenditure and Income	0	0	0		0	* 540	540	
Restated Total Comprehensive Expenditure and Income	(1,987)	0	0	0	(1,987)	540	*(1,447)	
Re-stated Adjustments between accounting basis & funding basis under regulations (restated)	*(91)	0	388	(472)	*(175)	*175	0	11
Net Increase/Decrease before Transfers to Earmarked Reserves	(2,078)	0	388	(472)	(2,162)	715	(1,447)	
Transfers to/from Earmarked Reserves	2,187	(1,614)	0	0	573	(573)	0	
Increase/Decrease (movement) in Year	109	(1,614)	388	(472)	(1,589)	142	(1,447)	
Balance at 31 March 2015 carried forward	(9,311)	(6,867)	0	(5,673)	(21,851)	(88,999)	(110,850)	
Movement in reserves during 2015/16:								
(Surplus) or deficit on provision of services	2,969	0	0	0	2,969	0	2,969	27
Other Comprehensive Expenditure and Income	0	0	0	0	0	(19,017)	(19,017)	
Total Comprehensive Expenditure and Income	2,969	0	0	0	2,969	(19,017)	(16,048)	
Adjustments between accounting basis & funding basis under regulations	(4,124)	0	(5,755)	2,169	(7,710)	7,710	0	11
Net Increase/Decrease before Transfers to Earmarked Reserves	(1,155)	0	(5,755)	2,169	(4,741)	(11,307)	(16,048)	
Transfers to/from Earmarked Reserves	1,375	(1,375)	0	0	0	0	0	
Increase/Decrease (movement) in Year	220	(1,375)	(5,755)	2,169	(4,741)	(11,307)	(16,048)	
Balance at 31 March 2016 carried forward	(9,091)	(8,242)	(5,755)	(3,504)	(26,592)	(100,306)	(126,898)	

The 2014/15 figures within the statements have been re-stated to reflect a prior year adjustment. All adjusted figures have been marked with an asterisk and further information is disclosed in the prior year adjustments note 5.

Comprehensive Income and Expenditure Statement

Re-stated 2014/15			2015/16				
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Note
£000	£000	£000		£000	£000	£000	
1,325	(724)	601	Central Services to the Public	1,697	(777)	920	
6,320	(3,369)	2,951	Cultural & Related Services	8,975	(3,125)	5,850	
*	10,966	(5,030)	5,936	Environmental & Regulatory Services	11,730	(4,679)	7,051
*	7,324	(3,454)	3,870	Planning & Development Services	8,858	(4,518)	4,340
35,971	(33,782)	2,189	Housing Services	36,636	(33,329)	3,307	
*	2,493	(4,134)	(1,641)	Highways & Roads	2,837	(4,289)	(1,452)
419	(284)	135	Social Services	456	(284)	172	
3,935	(1,010)	2,925	Corporate & Democratic Core	3,075	(26)	3,049	
311	0	311	Non-Distributed Costs	(5)	0	(5)	
69,064	(51,787)	17,277	Cost of Services	74,259	(51,027)	23,232	27
		1,500	Other operating expenditure			517	8
		(2,093)	Financing and investment income and expenditure			(2,204)	9
		(18,671)	Taxation and non-specific grant income			(18,576)	10
	*	(1,987)	(Surplus) or deficit on provision of services			2,969	27
			Items that will not be classified to the (Surplus) or deficit on the Provision of Services				
		*	(3,560)	Surplus or deficit on revaluation of Property, Plant and Equipment assets		(5,772)	5,12
		4,156	Actuarial (gains)/losses on pensions assets/liabilities			(13,261)	33
		(56)	Surplus or deficit on revaluation of financial assets (Available for sale)			16	
	*	540	Other Comprehensive Income and Expenditure			(19,017)	
		(1,447)	Total Comprehensive Income and Expenditure			(16,048)	

Balance Sheet

Restated			
<u>31.03.2015</u>		<u>31.03.2016</u>	Note
£000		£000	
	NON-CURRENT ASSETS		
	Property, Plant and Equipment		
79,741	- Other Land and Buildings	77,882	12
3,419	- Vehicles, Plant, Furniture & Equipment	2,213	12
801	- Assets under construction/Awaiting Development	1,767	12
709	Heritage Assets	709	13
30,085	Investment Property	32,887	14
375	Intangible Assets	188	
34	Long-term Debtors	32	
2,000	Long-term Investments	4,000	15
117,164	TOTAL LONG-TERM ASSETS	119,678	
12,001	Short - term Investments	22,433	15
129	Inventories	136	
4,943	Short -term Debtors	5,131	17
10,834	Cash and Cash Equivalents	5,309	16
27,907	CURRENT ASSETS	33,009	
(9,881)	Short-term Creditors	(11,033)	18
(9,881)	CURRENT LIABILITIES	(11,033)	
(266)	Provisions	(291)	19
(1,693)	Provision for Business Rates Appeals	(2,063)	19
(4,000)	Long-term Borrowing	(4,000)	15
	Other Long-term Liabilities		
(13,412)	- Pension Asset/(Liability)	(1,875)	33
(3,171)	- S106 Contribution	(4,399)	
(578)	- Rent Deposits and Other Balances	(657)	
(1,220)	Capital Grants & Receipts in Advance	(1,471)	
(24,340)	LONG-TERM LIABILITIES	(14,756)	
110,850	NET ASSETS	126,898	
	Usable Reserves		
(16,178)	- Reserves	(17,333)	7,20
0	- Capital Receipts Reserve	(5,755)	20
(5,673)	- Capital Grants & Contributions Unapplied	(3,504)	20
	Unusable Reserves		
*	(19,013) - Revaluation Reserve	(23,553)	21
13,412	- Pensions Reserve	1,875	21,33
*	(84,131) - Capital Adjustment Account	(78,838)	21
(84)	Financial Instrument Available for Sale Reserve	(68)	21
(98)	-Financial Instrument Adjustment Account	(74)	21
787	-Collection Fund Adjustment Account	199	21
128	-Accumulating Absences Adjustment Account	153	21
(110,850)	TOTAL RESERVES	(126,898)	

Director of Corporate Resources

Date

Cash Flow Statement

<u>2014/15</u>		<u>2015/16</u>	<u>Note</u>
£000		£000	
	<u>Operating activities</u>		
* (1,987)	(Surplus) or deficit on provision of services	2,969	27
* (324)	Adjust net surplus or deficit on the provision of services for non- cash movements	(4,159)	22
3,206	Adjust for items in the net deficit on the provision of services that are investing or financing activities	3,038	22
895	Net cash flows from Operating activities	1,848	
	<u>Investing activities</u>		
1,456	Purchase of property, plant and equipment, investment property and intangible assets	4,216	
79,250	Purchase of short-term and long-term investments	103,750	
1,626	Other payments for investing activities	231	
(1,008)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6,383)	
(80,750)	Proceeds from short-term and long-term investments	(91,250)	
(3,857)	Other receipts from investing activities	(3,768)	
(3,283)	Net cash flows from investing activities	6,796	
	<u>Financing Activities</u>		
(1,005)	Other receipts from financing activities	(3,119)	
0	Other payments for financing activities	0	
(1,005)	Net cash flows from financing activities	(3,119)	
(3,393)	Net increase or decrease in cash and cash equivalents	5,525	
(7,441)	Cash and cash equivalents at 1 April	(10,834)	16
(10,834)	Cash and cash equivalents at 31 March	(5,309)	16

Notes to the Core Statements

	Page
1. Accounting Policies	16
2. Accounting Standards that have been issued but not yet adopted	25
3. Critical Judgements and Assumptions in Applying Accounting Policies	26
4. Material Items of Income and Expense	27
5. Prior Period Adjustments	27
6. Events after the Balance Sheet Date	27
7. Transfers to/from Earmarked Reserves	28
8. Other Operating Expenditure	28
9. Financing and Investment Income and Expenditure	28
10. Taxation and Grant Income	28
11. Adjustments between Accounting Basis and Funding Basis Under Regulations	29
12. Property, Plant and Equipment	31
13. Heritage Assets	32
14. Investment Properties	32
15. Financial Instruments	33
16. Cash and Cash Equivalents	34
17. Debtors	35
18. Creditors	35
19. Provisions	35
20. Usable Reserves	36
21. Unusable Reserves	36
22. Cash Flow Statement – Operating Activities	39
23. External Audit Costs	39
24. Members Allowances	39
25. Revaluation Gains	40
26. Leases	40
27. Amounts Reported for Resource Allocation Decisions	40
28. Officers Remuneration	43
29. Exit Packages	44
30. Termination Costs	44
31. Related Parties	45
32. Capital Expenditure and Capital Financing	46
33. Defined Benefit Pension Schemes	46
34. Contingent Liabilities and Contingent Assets	49
35. Nature and Extent of Risks Arising from Financial Instruments	50

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
- Understandability
- Materiality
- Accruals
- Going concern

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

ACCRUALS OF EXPENDITURE AND INCOME

The revenue accounts of the Council are maintained on an accrual basis in accordance with the Code. Any sums due to or payable by the Council at the end of each financial year 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 precepting 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 Authority's financial position or financial performance. When a change is made, it is applied retrospectively (unless

stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

CHARGES TO REVENUE RELATED TO NON-CURRENT ASSETS

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

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

MINIMUM REVENUE PROVISION

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

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

EMPLOYEE BENEFITS

Officers Emoluments and Senior Officer Remuneration

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

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

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 disclosed within the notes.

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 authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurement of the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions- recognised in Other Comprehensive Income and Expenditure.
- Contributions paid to the West Sussex County Council Pension Fund – cash paid as employer contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits

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

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

EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

FINANCIAL INSTRUMENTS

The accounting for financial instruments includes disclosures concerning the values of, and the risks related to financial assets and liabilities. The financial assets are investments, debtors and the financial liabilities are creditors, long term borrowing and other balances shown under current liabilities. The authority recognises a financial asset or liability in the Balance Sheet when it becomes a party to the contractual provisions of the instrument.

Financial Liabilities

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan. The write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority 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 Comprehensive Income and Expenditure Statement 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 into two types:

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

Loans and receivables

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

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

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

Available-for-Sale Assets

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

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

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

The inputs to the fair value measurement techniques are categorised in accordance with the following three levels: Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the 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.

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

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

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

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

FOREIGN CURRENCY TRANSLATION

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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, with effect from 1 April 2013 local authorities are responsible for collecting and distributing income from the business rates they collect rather than simply acting in an agency capacity for the Government NNDR Pool as they had done until 31 March 2013.

The Council is responsible for any refunds relating to backdated appeals although a significant element of refunds will relate to 2014/15 or prior years, but in accordance with CIPFA Guidance (LAAP Bulletin 96) such liabilities will only be formally recognised in the 2015/16 accounts. The total provision which the Council believes it is necessary to make as at 31 March 2016 with regard to outstanding business rate appeals is £5.157m (12% of the estimated 2015/16 gross rate yield after reliefs) of which the Council's share is 40% (£2.063m).

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

HERITAGE ASSETS

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

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

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

Heritage assets shall normally be measured at valuation in accordance with Financial Reporting Standard 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 authority holds a number of commercial properties that it categorises as Investment Properties on the basis that the properties are rented to commercial entities using standard commercial terms of the rental rather than concessionary terms to specific classes of commercial tenants.

Investment properties are valued 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 as a Lessee

Finance Leases

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

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

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

Operating Leases

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

The Council as a Lessor

Finance Leases

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

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 authority and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of PPE assets which is charged direct to service revenue accounts.

Property, plant and equipment 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 valuer's judgment we reduce the useful life of most of our assets by one year; the remaining assets' lives are reviewed by the valuer for reasonableness. Investment properties are not depreciated.

PROVISIONS & RESERVES

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

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the estimate of the likely settlement. When payments are eventually made, they are

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

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

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

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.

SERVICE REPORTING CODE OF PRACTICE

The presentation of the Final Accounts reflects Service Reporting Accounting requirements, with the aims of providing a consistent basis for all statutory financial disclosures in relation to best value.

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 2015/16 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2015. The standards introduced in the 2016/17 Code that are relevant to the requirements are:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions).
- Annual Improvements to IFRSs (2010-12 cycle). These relate to:
 - IFRS 3 Business Combinations – Accounting for contingent consideration in a business combination
 - IFRS 8 Operating Segments – Aggregation of operating segments and reconciliation of the total of the reportable segments assets to the entity's assets.
 - IFRS 13 Fair Value Measurement – Short term receivables and payables

- IAS 16 Property, Plant and Equipment; Revaluation Method – proportionate restatement of accumulated depreciation
- IAS 24 Related Party Disclosures – Key management personnel
- IAS 38 Intangible Assets – Revaluation method –proportionate restatement of accumulated depreciation
- Amendment to IFRS 11 Joint Arrangements (accounting for Acquisitions of Interests in Joint Operations).
- Amendment to IAS 16 Property, Plant and Equipment and IAS38 Intangible Assets (clarifications of acceptable methods of depreciation and amortisation).
- Annual improvements to IFRSs 2012-14 Cycle. These relate to:
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal.
 - IFRS 7 Financial Instruments Disclosures – servicing contracts and the applicability of the amendments to IFRS 7 to condensed interim financial statements.
 - IAS 19 Employee Benefits – Discount rate: regional market issue.
 - IAS 34 Interim Financial Reporting – disclosure of information elsewhere in the interim financial report.
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative).
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis.

3 CRITICAL JUDGEMENTS AND ASSUMPTIONS

Critical Judgements

In applying the accounting policies the Council has made the following critical judgements that have a significant effect on the statements:

- Future levels of local authority funding are uncertain, however based on its medium term planning using prudent assumptions on funding and based on announcements made by central government the Authority judges that its assets will not be impaired as a result of a need to close facilities, reduce service provision or ongoing maintenance.
- The Council hold a significant portfolio of investment property and although general economic growth is still fragile the council judges that its portfolio in the context of the local economy is robust and healthy enough that its assets will not be impaired as a result of a decrease in economic activity.
- The Council judges that, on balance, the banking system will not be subject to major disruption to the extent that historic estimates of defaults are no longer tenable.
- The Council does not expect the introduction of the new tax gathering mechanisms for Council Tax and Business Rates to fundamentally alter the Council's financial stability. The risk within the rates retention scheme is assumed to be the safety net which has been set by the government at 7.5% of the authority spending baseline which equates to £140k.

Assumptions

The Statement of Accounts contains estimated figures that are based on assumption made by the Authority 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 Authority's Balance Sheet at 31 March 2016 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 Authority with expert advice about the assumptions to be applied. However the interaction of these assumptions is complex.

During 2015/16 the actuaries advised that the pension liability had been affected as follows:

<u>Change in assumptions year ended 31 March 2016</u>	Horsham		CenSus	
	Approximate % increase to Employer	Approximate monetary amount £000	Approximate % increase to Employer	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	9%	12,589	13-14%	826
1 year increase in member life expectancy	3%	3,979	3%	178
0.5% increase in Salary Increase Rate	2%	3,282	6%	360
0.5% increase in the Pension Increase Rate	7%	9,153	6-7%	446

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 £292k.

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 £38k.

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 £5.2m as an estimate of potential successful appeals up to 31 March 2016, the Council's proportion (40%) reflected in the Balance Sheet is £2.063m. This estimate is calculated using Valuation Office ratings list of appeals and an analysis of successful appeals to date.

Heritage Assets

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

4 MATERIAL ITEMS OF INCOME AND EXPENSE

Material items in terms of the authority's overall net expenditure, which are derived from events or transactions that are not expected regularly, that fall within the ordinary activities of the authority. They are required to be disclosed separately by virtue of their size or incidence to give a fair presentation of the accounts. There were no material items of income or expenditure in 2014/15 or 2015/16 other than disclosed on the face of the Comprehensive Income and Expenditure Statement.

5 PRIOR PERIOD ADJUSTMENTS

In 2014/15 a new third party asset register system was implemented to replace a spreadsheet based register. Asset accounting is a complex area requiring any system to hold the history of an asset back to 1 April 2007 or its purchase if after that date. The implementation was successful in asset valuations but produced some anomalies in the value of the revaluation reserve associated with a handful of assets. The Revaluation Reserve holds the difference between the historic cost of an asset and its current value. At the time of the implementation the anomalies were thought to be a reporting issue as the asset register system reports were not fully developed. However, there had been a problem in the input of the historic data for a handful of assets that meant the Revaluation Reserve figures generated by the new asset register system were wrong. This was due to the initial recognition of the assets involved being non-standard and the complications in their recognition not being fully reflected in the input into the new system.

The total changes to accounts affect the balance sheet value of the Capital Adjustment Account and revaluation reserve crediting the CAA by £0.617m and debiting the Revaluation Reserve. The restatement also affects the Comprehensive Income and Expenditure and Movement in Reserves statements. Any figures amended for the change within in the statements or the disclosure notes are marked with an asterisk.

The restatement of the 2014/15 figures, although not material, was necessary as the balance on the revaluation reserve affects all future revaluations.

6 EVENTS AFTER THE BALANCE SHEET DATE

The European Union referendum was held on 23rd June 2016 which resulted in the UK voting to leave the European Union. The Statement of Accounts have not been amended as a result of this decision as the scale of any potential financial impact is currently not known.

7 TRANSFERS TO /FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

	Balance at 31.03.2014 £000	(Income)/ Expenditure 2014/15 £000	Transfer (In)/Out from other reserves 2014/15 £000	Balance at 31.03.2015 £000	(Income)/ Expenditure 2015/16 £000	Transfer (In)/Out from other reserves 2015/16 £000	Balance at 31.03.2016 £000
General Fund Balance	(9,420)	(1,416)	1,525	(9,311)	(1,271)	1,491	(9,091)
New Homes Bonus Reserve	(1,148)	0	(776)	(1,924)	0	(1,777)	(3,701)
Local Development Reserve	(68)	0	68	0	0	0	0
Repairs and Renewals Reserve	(533)	0	533	0	0	0	0
Neighbourhood Planning Grant	(34)	0	(284)	(318)	0	0	(318)
Section 106 Reserves	(1,217)	(285)	0	(1,502)	109	0	(1,393)
Insurance Reserve	(36)	0	0	(36)	0	0	(36)
Vehicle Replacement Reserve	(271)	198	0	(73)	0	0	(73)
NNDR Provision	(476)	0	(959)	(1,435)	0	0	(1,435)
Other	(1,470)	(2)	(107)	(1,579)	7	286	(1,286)
Other Earmarked Reserves	(5,253)	(89)	(1,525)	(6,867)	116	(1,491)	(8,242)

8 OTHER OPERATING EXPENDITURE

	2015/16 £000	2014/15 £000
Parish council precepts	2,462	2,350
Parish grants	82	118
(Gains)/losses on the disposal of non-current assets	(2,027)	(968)
Total	517	1,500

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2015/16 £000	2014/15 £000
Interest payable and similar charges	135	137
Net interest cost on LGPS Pension	450	367
Interest receivable and similar income	(303)	(215)
Income and expenditure in relation to investment properties and changes in their fair value (as detailed in note 14)	(2,486)	(2,382)
Total	(2,204)	(2,093)

10 TAXATION AND GRANT INCOME

	2015/16 £000	2014/15 £000
Benefits Grants	(31,613)	(31,659)
Other Government Grants	(395)	(332)
Other Grants	(492)	(519)
Grants credited to Services	(32,500)	(32,510)
Council Tax	(10,607)	(10,269)
Non Domestic Rates income & expenditure	(1,435)	(1,095)
Revenue Support Grant	(1,603)	(2,149)
Council Tax Freeze Grant	(85)	(83)
New Homes Bonus	(2,943)	(1,949)
Section 31 Grant – Business Rates Reliefs	(964)	(803)
Other Government Grants	(104)	(263)
Capital grants and contributions	(835)	(2,060)
Credited to Taxation and Non Specific Grant Income	(18,576)	(18,671)

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

2015/16

	Usable Reserves				
	General Fund Balance £000	Earmarked General Fund Reserves £000	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	(2,673)				2,673
Impairment on Property, Plant and Equipment	(715)				715
Other gains transferred from Revaluation Reserve	0				0
Movements in the market value of Investment Properties	203				(203)
Amortisation of intangible assets	(192)				192
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	(6,094)				6,094
Revenue expenditure funded from capital under statute	(3,210)				3,210
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	787				(787)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	835			(835)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0			3,004	(3,004)
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	8,121		(8,121)		0
Use of the Capital Receipts Reserve to finance new capital expenditure			2,366		(2,366)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals					
Adjustments primarily involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(24)				24
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(4,075)				4,075
Employers pension contributions and direct payments to pensioners payable in the year	2,350				(2,350)
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	588				(588)
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	(25)				25
Total Adjustments	(4,124)	0	(5,755)	2,169	7,710

2014/15 Re-stated

	Usable Reserves				
	General Fund Balance £000	Earmarked General Fund Reserves £000	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	(2,283)				2,283
Impairment on Property, Plant and Equipment - restated *	* 2,351				(2,351)
Other gains transferred from Revaluation Reserve	0				0
Movements in the market value of Investment Properties	41				(41)
Amortisation of intangible assets	(85)				85
Capital grants and contributions applied	647			(647)	0
Revenue expenditure funded from capital under statute	(2,245)				2,245
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	747				(747)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,413			(1,413)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0			1,588	(1,588)
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	968		(1,008)		40
Use of the Capital Receipts Reserve to finance new capital expenditure			1,396		(1,396)
Adjustments primarily involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(24)				24
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,328)				3,328
Employers pension contributions and direct payments to pensioners payable in the year	2,291				(2,291)
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	(603)				603
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	19				(19)
Total Adjustments – Restated b *	*(91)	0	388	(472)	175

12 PROPERTY, PLANT & EQUIPMENT
Movements in 2015/16

	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant & Equipment
Cost or Valuation	£000	£000	£000	£000
At 1 April 2015	80,331	8,937	801	90,069
additions	1,137	218	1,086	2,441
reclassifications	(709)		(120)	(829)
revaluation increase/(decreases) recognised in the Revaluation Reserve	5,772			5,772
revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(713)	(2)		(715)
De-recognition – disposal	(6,200)	(1,551)		(7,751)
other movements in cost or valuation	(1,002)			(1,002)
At 31 March 2016	78,616	7,602	1,767	87,985
Accumulated Depreciation and Impairment				
At 1 April 2015	(590)	(5,518)	0	(6,108)
depreciation charge	(1,251)	(1,422)		(2,673)
depreciation written out to the Revaluation Reserve	215			215
depreciation written out to the Surplus/Deficit on the Provision of Services	786			786
De-recognition	106	1,551		1,657
At 31 March 2016	(734)	(5,389)	0	(6,123)
Net Book Value				
At 31 March 2016	77,882	2,213	1,767	81,862
At 31 March 2015	79,741	3,419	801	83,961

Movements in 2014/15 Restated

	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant & Equipment
Cost or Valuation	£000	£000	£000	£000
At 1 April 2014	75,584	8,170	62	83,816
additions	1,286	767	801	2,854
reclassifications	62		(62)	0
revaluation increase/(decreases) recognised in the * Revaluation Reserve	3,560			3,560
revaluation increase/(decreases) recognised in the * Surplus/Deficit on the Provision of Services	2,351			2,351
ther movements in cost or valuation	(2,512)			(2,512)
At 31 March 2015	80,331	8,937	801	90,069
Accumulated Depreciation and Impairment				
At 1 April 2014	(1,954)	(4,381)	0	(6,335)
depreciation charge	(1,146)	(1,137)		(2,283)
depreciation written out to the Revaluation Reserve	1,791			1,791
depreciation written out to the Surplus/Deficit on the Provision of Services	719			719
At 31 March 2015	(590)	(5,518)	0	(6,108)
Net Book Value				
At 31 March 2015	79,741	3,419	801	83,961
At 31 March 2014	73,630	3,789	62	77,481

The lives of operational properties are individually assessed by the valuing officer. Vehicles have a seven year life, the software licences, which comprise the intangible assets have a life of four years.

Capital Commitments

At 31 March 2016, the Authority was committed to the following significant capital works contracts:

	£000
Forum and Piries Place car park lift replacement	325
Temporary accommodation apartments at Bishopric	2,040
New Broadbridge Heath Leisure Centre	680
Hop Oast redevelopment	<u>412</u>
Total	<u>3,457</u>

The comparative figure for 31 March 2015 was £1.395m.

Effects of Changes in Estimates

Revaluations

The Authority carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. Valuations are carried out 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		2,213	2,213
Valued at fair value as at			
31 March 2016	27,084		27,084
31 March 2015	37,092		37,092
31 March 2014	7,448		7,448
31 March 2013	1,329		1,329
31 March 2012	<u>4,929</u>		<u>4,929</u>
	<u>77,882</u>	<u>2,213</u>	<u>80,095</u>

13 HERITAGE ASSETS

The heritage assets valued at £0.709m on the balance sheet relate to art works which are valued at historic cost and the Horsham war memorial which is valued at depreciated replacement cost. Current valuations are not available as they are either too expensive to obtain or there is no market due to the exceptional nature of the asset.

The Council also has a museum collection which is not included within the heritage assets value as there is no reliable cost information and the cost of a comprehensive valuation would not be commensurate with the use.

14 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:

	2015/16 £000	2014/15 £000
Income from investment property	(2,439)	(2,509)
Direct operating expenses arising from investment property	156	168
Net (gains)/losses from fair value adjustments	<u>(203)</u>	<u>(41)</u>
Net (gain)/loss	<u>(2,486)</u>	<u>(2,382)</u>

There are no restrictions to the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of the disposal. In estimating the fair value of the Authority'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 3 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:

	2015/16	2014/15
	£000	£000
Balance at start of year	30,085	30,083
Additions	1,770	0
Subsequent expenditure	0	0
Disposals	0	(39)
Net gains/(losses) from fair value adjustments	203	41
Transfers	829	0
Balance at end of the year	32,887	30,085

15 FINANCIAL INSTRUMENTS

Financial Instruments - Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31 March 2016, using market interest rates for instruments of similar credit quality and remaining term to maturity.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2016, using the following methods and assumptions:

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

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

	31.03.2016		31.03.2015	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Financial liabilities	(4,000)	(4,258)	(4,000)	(4,429)
Loans and receivables	4,000	4,126	2,000	2,093

The financial liability is a long term borrowing whose rate is less favourable than the applicable prevailing rate.

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

<u>Category</u>	<u>Fair value</u>	<u>31/3/2016</u>	<u>31/3/2015</u>
	<u>level</u>	<u>£m</u>	<u>£m</u>
Money market funds	1	13.5	12.5
Corporate/ Government bonds and CDs	2	2	0

Categories of Financial Instruments

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

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

	Long Term		Short term	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
	£000	£000	£000	£000
Financial Assets:				
Investments and Available-for-sale				
Loans and receivables	4,000	2,000	14,283	10,359
Available -for-sale financial assets	0	0	13,459	12,476
Total	4,000	2,000	27,742	22,835
Debtors				
Loans and receivables	32	34	0	0
Financial assets carried at contract amounts	0	0	1,306	1,331
Total	32	34	1,306	1,331
Financial Liabilities:				
Borrowings				
Financial liabilities at amortised cost	(4,000)	(4,000)	0	0
Total	(4,000)	(4,000)	0	0
Creditors				
Financial liabilities carried at contract amounts	0	0	(8,499)	(8,290)
Total	0	0	(8,499)	(8,290)

Income, Expense, Gains and Losses

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

	2015/16				2014/15			
	Financial Liabilities measured at amortised cost	Financial Assets: Loans & receivables	Financial Assets: AFS	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans & receivables	Financial Assets: AFS	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense	135	0	0	135	137	0	0	137
Total expenses	135	0	0	135	137	0	0	137
Interest income	0	(172)	(147)	(319)	0	(86)	(73)	(159)
Total income	0	(172)	(147)	(319)	0	(86)	(73)	(159)
Gains/Loss on revaluation	0	0	16	16	0	0	(56)	(56)
Other Comprehensive Income	0	0	16	16	0	0	(56)	(56)
Net gain/(loss) for the year	135	(172)	(131)	(168)	137	(86)	(129)	(78)

16 CASH AND CASH EQUIVALENTS

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

	31.03.2016	31.03.2015
	£000	£000
Cash held by authority	2	2
Bank current accounts	(158)	155
Money market Funds	4,000	3,001
Short-term deposits	1,465	7,676
Total Cash and Cash Equivalents	5,309	10,834

17 DEBTORS

	31.03.2016	31.03.2015
	£000	£000
Sundry Debtors	1,254	896
Central government bodies:	1,357	1,463
Payments in advance	538	256
Council Tax debtors	432	367
NNDR Debtors	1,195	1,016
Housing benefit overpayments	2,818	2,777
Moat Management service charge	311	292
Other local authorities	107	445
	<u>8,012</u>	<u>7,512</u>
Provision for doubtful debts (See note 19)	<u>(2,881)</u>	<u>(2,569)</u>
	<u>5,131</u>	<u>4,943</u>

18 CREDITORS

	31.03.2016	31.03.2015
	£000	£000
Sundry Creditors	(5,135)	(5,200)
Prepayment of NNDR	(515)	(606)
Prepayment of Council Tax	(228)	(221)
WSCC Council Tax creditors	(2,631)	(2,550)
SPA Council Tax creditors	(326)	(313)
Central Government – Grants, Reliefs and Levy	(63)	(79)
Central Government - NNDR creditors	(1,779)	(760)
WSCC NNDR Creditors	(356)	(152)
Total	<u>(11,033)</u>	<u>(9,881)</u>

19 PROVISIONS

	Provision for doubtful debts	Provision for NNDR appeals	Provision for corporate restructure	Provision for Accumulated Absences	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2014	(2,167)	(1,070)	(720)	(147)	(4,104)
Additional provisions made in 2014/15	(678)	(997)	0	0	(1,675)
Amounts used in 2014/15	276	374	582	0	1,232
Unused amounts reversed in 2014/15	0	0	0	19	19
Balance at 31 March 2015	(2,569)	(1,693)	(138)	(128)	(4,528)
Additional provisions made in 2015/16	(459)	(709)	0	(25)	(1,193)
Amounts used in 2015/16	147	339	0	0	486
Unused amounts reversed in 2015/16	0	0	0	0	0
Balance at 31 March 2016	(2,881)	(2,063)	(138)	(153)	(5,235)

Provision for Doubtful Debts

Estimated debts that will not be collectible

Provision for NNDR Appeals

Estimate of rates potentially overcharged to businesses repayable on appeal.

Corporate Restructure

The provision was set up for the redundancy and pension costs of corporate management restructures. The balance remaining in the provision is to cover any future payments to the pension fund for early access costs. In 2014/15 the provision was used to meet the redundancy and early access to pension costs relating to the management restructure approved in 2013/14 and the final pension costs for a previous restructure in 2008/09.

Provision for Accumulated Absences

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

20 USABLE RESERVES

Movements in reserves are detailed in the Movement in Reserves Statement and in note 7.

	31.03.2016	31.03.2015
	£000	£000
Revenue Reserves:		
Neighbourhood Planning Grant	(318)	(318)
Section 106 Reserves	(1,393)	(1,502)
Insurance Reserve	(36)	(36)
Vehicle Replacement Reserve	(73)	(73)
New Homes Bonus Reserve	(3,701)	(1,924)
NNDR Provision	(1,435)	(1,435)
Other Reserves	(1,286)	(1,579)
General Fund Balance	(9,091)	(9,311)
	<u>(17,333)</u>	<u>(16,178)</u>
Capital Receipts Reserve	(5,755)	0
Capital Grants Unapplied	(3,504)	(5,673)
Total Usable Reserves	<u>(26,592)</u>	<u>(21,851)</u>

21 UNUSABLE RESERVES

	31.03.2016	Restated 31.03.2015	31.03.2015
	£000	£000	£000
Revaluation Reserve	(23,553)	*(19,013)	(19,630)
Capital Adjustment Account	(78,838)	*(84,131)	(83,514)
Financial Instruments Adjustment Account	(74)	(98)	(98)
Financial Instruments Available for Sale Reserve	(68)	(84)	(84)
Pensions Reserve	1,875	13,412	13,412
Collection Fund Adjustment Account	199	787	787
Accumulated Absences Account	153	128	128
Total Unusable Reserves	<u>(100,306)</u>	<u>(88,999)</u>	<u>(88,999)</u>

Revaluation Reserve

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

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

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the Capital Adjustment Account.

	31.03.2016	Restated 3.03.2015	31.03.2015
	£000	£000	£000
Balance at 1 April	(19,013)	(15,756)	(15,756)
(Upward)/downward revaluation of assets	(6,186)	*(4,425)	(4,985)
Downward revaluation of assets and impairment losses not charged to the Surplus/deficit on the Provision of Services	416	865	865
Difference between fair value depreciation and historical cost depreciation	334	246	246
Amount written off to the Capital Adjustment Account	896	*57	0
Balance at 31 March	<u>(23,553)</u>	<u>(19,013)</u>	<u>(19,630)</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 Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement (as the benefits are earned by employees accruing years of service), updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2015/16	2014/15
	£000	£000
Balance at 1 April	13,412	8,220
Actuarial gains or losses on pensions assets and liabilities	(13,261)	4,155
Reversal of items relating to retirement benefits debited or credited to the surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	4,075	3,328
Employers pensions contributions and direct payments to pensioners payable in the year	(2,351)	(2,291)
Balance at 31 March	1,875	13,412

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 authority as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses in investment properties and revaluation gains and losses accumulated on property, plant and equipment before 1 April 2007, the date the Revaluation Reserve was created.

	2015/16	Re-stated 2014/15	2014/15
	£000	£000	£000
Balance at 1 April	(84,131)	(81,786)	(81,786)
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	3,377	(108)	452
- - Revaluation losses on Property, Plant and Equipment			
- - Depreciation of intangible assets	0	85	85
- Revenue expenditure funded from capital under statute	3,210	2,245	2,245
- 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	6,094	40	40
Adjusting amounts written out of the Revaluation Reserve	(1,231)	(303)	(246)
Heritage assets added to Balance Sheet			
Capital financing applied in the year:			
Use of the Capital Receipts Reserve to finance new capital expenditure	(2,366)	(1,396)	(1,396)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(652)	(647)	(647)
Application of grants to capital financing from the Capital Grants Unapplied Account	(2,352)	(941)	(941)
Statutory provision for the financing of capital investment charged against the General Fund	(787)	(747)	(747)
Use of general revenue reserves for the financing of capital investment	0	(573)	(573)
Balance at 31 March	(78,838)	(84,131)	(83,514)

Available for Sale Financial Instruments Reserve

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

The balance is reduced when investments with accumulated gains are

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

	31.03.2016	31.03.2015
	£000	£000
Balance at 1 April	(84)	(28)
Upward revaluation of investment	0	(56)
Downward revaluation of investment not charged to the Surplus or Deficit on the Provision of Services	16	0
Balance at 31 March	(68)	(84)

Financial Instruments Adjustment Account

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

	2015/16	2014/15
	£000	£000
Balance at 1 April	(98)	(122)
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	24	24
Balance at 31 March	(74)	(98)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	24	24

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.

	2014/15	2014/15
	£000	£000
Balance at 1 April - Council Tax	(341)	(157)
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	(2)	(184)
Balance at 31 March	(343)	(341)
Balance at 1 April - NNDR	1,128	341
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	(586)	787
Balance at 31 March	542	1,128
Total	199	787

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2015/16	2014/15
	£000	£000
Balance at 1 April	128	147
Settlement or cancellation of accrual made in the end of the preceding year	(128)	(147)
Amounts accrued at the end of the current year	153	128
Balance at 31 March	153	128
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	25	(19)

22 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

	2015/16	Re-stated 2014/15	2014/15
	£000	£000	£000
Depreciation and Impairments	(2,865)	(2,367)	(2,367)
Impairments *	(512)	* 2,392	1,831
Pensions Liability	(1,725)	(1,036)	(1,036)
(Increase)/decrease in debtors	355	1,684	1,684
(Increase)/decrease in creditors	163	(606)	(606)
Movement in provisions	7	(355)	(355)
(Increase)/decrease in inventories	402	14	14
Other non cash adjustments	16	(50)	(50)
Total	<u>(4,159)</u>	<u>*(324)</u>	<u>(885)</u>

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

	2015/16	2014/15
	£000	£000
Capital grants credited to the surplus or deficit on the provision of services	2,027	2,060
Proceeds from the sale of non-current assets	835	968
Council Tax and NDR adjustment	176	178
Total	<u>3,038</u>	<u>3,206</u>

c) Interest received, interest paid and dividends received

	2015/16	2014/15
	£000	£000
Interest received	(303)	(215)
Interest paid	135	137
Total	<u>(168)</u>	<u>(78)</u>

23 EXTERNAL AUDIT COSTS

	2015/16	2014/15
	£000	£000
Fees payable with regard to external audit services carried out by the appointed auditors for the year	51	67
Fees payable in respect of statutory inspections	0	0
Fees payable for the certification of grant claims and returns for the year	12	17
Fees payable in respect of other services provided during the year	4	0
Total	<u>67</u>	<u>84</u>

The costs within other services for 2015/16 relate to additional audit work required by the Department of Works and Pensions in relation to the 2013/14 Housing Benefit Claim. The costs have been charged in 2015/16 due to the timing of the work.

24 MEMBERS ALLOWANCES

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

	2015/16	2014/15
	£000	£000
Attendance Allowances	316	302
Expenses	27	30
Total	<u>343</u>	<u>332</u>

25 REVALUATION GAINS AND LOSSES

During 2015/16, the Authority has recognised a net revaluation loss of £512k in relation to the following:

	£000
Steyning Swimming Pool	120
Henfield Industrial Units	(110)
Steyning Health Centre	(945)
Arun House	(138)
Swan Walk Freehold	948
Park House, Horsham	285
Blackhorse Lane	158
Dinosaur Island	278
Other	(84)
Total	<u>512</u>

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

	£000
Central services to the Public	(2)
Cultural and Related Services	647
Planning and Development Services	(400)
Housing Services	(1)
Corporate and Democratic Core	231
Cost of Services	475
Investment Properties	37
Provision of Services	<u>512</u>

26 LEASES

Authority as Lessee

Operating Leases

The Council had no operating leases or finance leases as at 31 March 2016.

Authority as Lessor

Operating Leases

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

	31 March 2016	31 March 2015
	£000	£000
Not later than one year	1,900	1,700
Later than one year and not later than five years	5,035	4,500
Later than five years	7,505	7,600
	<u>14,440</u>	<u>13,800</u>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. The council received contingent rent of £0.15m in 2015/16 (£0.38m in 2014/15).

Finance Leases

The Council has no investment in finance leases.

27 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure statement is that specified by the Service Reporting Code of Practice. However decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular, no charges are made in relation to capital expenditure (whereas depreciation, revaluation, depreciations are charged to services in the Comprehensive Income and Expenditure Statement) - the cost of retirement benefits is based on cash flows (payment of employers pension contributions) rather than current service cost of benefits accrued in the year.

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

Directorate Income and Expenditure

Segment Income and Expenditure

	Corporate Management	Legal and Democratic Services & Elections	Revenue & Benefits	Audit, Finance, HR and Commissioning	ICT	Community & Culture	Refuse, Cleansing & Environmental Services	Parking	Customer Services	Housing	Planning Services & Economic Development	Property & Facilities	Total
2015/16	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Fees, charges & other service income	(20)	(151)	(1,645)	(653)	(2,182)	(3,617)	(3,785)	(4,002)	(4)	(924)	(2,863)	(2,787)	(22,633)
Government grants	0	0	(31,613)	0	(51)	(59)	0	0	0	0	0	0	(31,723)
Total Income	(20)	(151)	(33,258)	(653)	(2,233)	(3,676)	(3,785)	(4,002)	(4)	(924)	(2,863)	(2,787)	(54,356)
Employee expenses	1,091	940	1	1,719	2,441	2,418	4,482	501	330	591	3,285	655	18,454
Other service expenses	276	607	33,750	857	1,509	4,025	2,836	1,168	12	602	1,536	1,045	48,223
Total Expenditure	1,367	1,547	33,751	2,576	3,950	6,443	7,318	1,669	342	1,193	4,821	1,700	66,677
Net Expenditure	1,347	1,396	493	1,923	1,717	2,767	3,533	(2,333)	338	269	1,958	(1,087)	12,321
Support service recharges	(277)	20	66	(2,247)	(2,308)	1,577	1,594	528	(363)	619	1,742	(1,029)	(78)
Net Expenditure after recharges	1,070	1,416	559	(324)	(591)	4,344	5,127	(1,805)	(25)	888	3,700	(2,116)	12,243

	Corporate Management	Legal and Democratic Services & Elections	Revenue & Benefits	Audit, Finance, HR and Commissioning	ICT	Community & Culture	Refuse, Cleansing & Environmental Services	Parking	Customer Services	Housing	Planning Services & Economic Development	Property & Facilities	Total
2014/15	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Fees, charges & other service income	(27)	(80)	(1,596)	(363)	(2,135)	(3,345)	(3,915)	(3,842)	0	(1,032)	(2,577)	(3,013)	(21,925)
Government grants	0	0	(31,880)	0	0	(30)	(124)	0	0	(16)	(64)	0	(32,114)
Total Income	(27)	(80)	(33,476)	(363)	(2,135)	(3,375)	(4,039)	(3,842)	0	(1,048)	(2,641)	(3,013)	(54,039)
Employee expenses	1,120	879	1	1,701	2,301	2,150	4,292	543	340	580	3,081	657	17,645
Other service expenses	313	533	33,881	904	1,549	4,024	3,245	1,034	1	748	1,507	1,031	48,770
Total Expenditure	1,433	1,412	33,882	2,605	3,850	6,174	7,537	1,577	341	1,328	4,588	1,688	66,415
Net Expenditure	1,406	1,332	406	2,242	1,715	2,799	3,498	(2,265)	341	280	1,947	(1,325)	12,376
Support service recharges	(400)	97	74	(2,006)	(1,715)	1,067	1,213	415	(341)	576	1,468	(559)	(111)
Net Expenditure after recharges	1,006	1,429	480	236	0	3,866	4,711	(1,850)	0	856	3,415	(1,884)	12,265

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

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

	2015/16 £000	*Re-stated 2014/15 £000	2014/15 £000
Net expenditure in the Segments Analysis	12,243	12,265	12,265
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis *	8,335	*2,507	3,067
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	2,654	2,505	2,505
Cost of services in Comprehensive Income and Expenditure Statement *	23,232	*17,277	17,837

Recognition to Subjective Analysis

2015/16	Segment Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(22,329)	587	2,439	(19,303)	(2,440)	(21,743)
Interest and investment income	(303)	0	303	0	(4,619)	(4,619)
Income from council tax	0	0	0	0	(12,042)	(12,042)
Government grants and contributions	(31,724)	0	0	(31,724)	(6,534)	(38,258)
Gain/ Loss on Disposal of Non-current Assets	0	0	0	0	(2,027)	(2,027)
Total Income	(54,356)	587	2,742	(51,027)	(27,662)	(78,689)
Employee expenses	18,454	60	0	18,514	0	18,514
Other service expenses	48,088	4,310	37	52,435	(37)	52,398
Support Service recharges	(78)	0	0	(78)	0	(78)
Depreciation and impairment	0	3,378	10	3,388	(10)	3,378
Interest payments	135	0	(135)	0	4,765	4,765
Precepts & Levies	0	0	0	0	2,681	2,681
Total Expenditure	66,599	7,748	(88)	74,259	7,399	81,658
Surplus or deficit on the provision of services	12,243	8,335	2,654	23,232	(20,263)	2,969

2014/15 Restated	Segment Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(21,925)	(520)	2,726	(19,719)	(2,509)	(22,228)
Interest and investment income	0	0	0	0	(5,296)	(5,296)
Income from council tax	0	0	0	0	(11,363)	(11,363)
Government grants and contributions	(32,114)	0	46	(32,068)	(7,308)	(39,376)
Gain/Loss on Disposal of Non-current Assets	0	0	0	0	(968)	(968)
Total Income	(54,039)	(520)	2,772	(51,787)	(27,444)	(79,231)
Employee expenses	17,645	496	0	18,141	0	18,141
Other service expenses	48,769	2,555	(172)	51,152	169	51,321
Support Service recharges	(110)	0	0	(110)	0	(110)
Depreciation and impairment	0	(24)	42	18	(42)	(24)
Interest payments	0	0	(137)	(137)	5,585	5,448
Precepts & Levies	0	0	0	0	2,468	2,468
Total Expenditure	66,304	3,027	(267)	69,064	8,180	77,244
Surplus or deficit on the provision of services	12,265	2,507	2,505	17,277	(19,264)	(1,987)

28 SENIOR OFFICER'S REMUNERATION

Corporate Post Holder Title	Total Remuneration excluding pension contributions	Employer Pension Contributions	Total Remuneration including pension contributions	Note
2015/16	£	£	£	
Chief Executive	123,781	21,649	145,430	
Director of Community Services	97,446	17,841	115,287	
Director of Corporate Resources (Section 151 Officer)	79,096	14,868	93,964	c
Director of Planning, Economic Development and Property	87,597	17,205	104,802	
Head of Legal and Democratic Services (Monitoring Officer)	74,586	14,129	88,715	
2014/15	£	£	£	
Chief Executive	115,135	20,539	135,674	
Director of Community Services	92,937	16,677	109,614	
Director of Corporate Resources (Section 151 Officer)	91,313	16,677	107,990	
Director of Planning, Economic Development and Property	53,660	9,960	63,620	a
Head of Legal and Democratic Services (Monitoring Officer)	49,779	9,370	59,149	
Principal Solicitor (Monitoring Officer)	11,197	1,910	13,107	b

There was a change in the management structure of the Council in 2014/15 which created a Strategic Leadership Team 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:

- The Director of Planning, Economic Development and Property was a new post created as part of the management restructure and the officer started in August 2014. Therefore the 2014/15 figures only do not include a full year of costs.
- The Monitoring Officer role was held by the Principal Solicitor until June 2014 when it became the responsibility of the new Head of Legal and Democratic Services.
- The Director of Corporate Resources left post on 29 February 2016 so 2015/16 does not include a full year of costs, the new Director started at the end of March 2016.

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

Remuneration Band	Number of Employees 2015/16	Number of Employees 2014/15
£50,000 - £54,999	10	7
£55,000 - £59,999	6	5
£60,000 - £64,999	1	2
£65,000 - £69,999	1	3
£70,000 - £74,999	2	1
£75,000 - £79,999	2	0
£80,000 - £84,999	1	0
£85,000 - £89,999	1	0
£90,000 - £94,999	0	2
£95,000 - £99,999	1	0
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000 - £114,999	0	0
£115,000 - £119,999	0	1
£120,000 - £129,999	1	0

29 EXIT PACKAGES

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

Exit package cost band	Number of Compulsory redundancies		Number of other agreed departures		Number of exit packages by exit band		Total cost of exit packages in each band	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16 £000	2014/15 £000
£0 - £20,000	4	2	2	2	6	4	57	37
£20,001 - £40,000	5	0	0	1	5	1	134	21
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	1	0	0	0	1	0	72	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
£150,001 - £200,000	0	0	0	0	0	0	0	0
Total	10	2	2	3	12	5	263	58

30 TERMINATION BENEFITS

During 2015/16 the council terminated 12 posts at a total cost of £263k which was made up of redundancy payments of £192k and other termination costs of £71k (termination costs in 2014/15 were £58k). These costs include £72k which related to an individual who worked for the Census ICT partnership, Horsham District Council received contributions from the other partners of £55k resulting in a net cost of £17k.

31 RELATED PARTIES

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

Central Government - has effective control over the general operations of the Authority, it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 27 (Amounts reported for resource allocation decisions).

Grant receipts outstanding at 31 March 2016 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 2015/16 is shown in note 24.

In 2015/16 the Council contracted the following services from an organisation called Horsham Matters whose Chief Executive was a Council Member until the local elections in May 2016:

Provision of Community Youth work	£28k
Provision of a bulky waste collection service	£27k
Removal Services for housing clients	£ 1k

It also paid grant monies during the year to the organisation of £5k for the for substance Misuse work as part of the Think Family programme and £1k towards the costs of Emotional Wellbeing and Mental Health provision consultation with young people and mental health packs for HYPER. The organisation was granted discretionary business rates relief of £8k over four sites.

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 authority, in particular those involving the expenditure of money. Details of senior officer remuneration are shown in note 28. There were no related party disclosures by senior officers in 2015/16.

Partnerships and shared arrangements

Census

As part of the CenSus partnership between Horsham, Mid Sussex and Adur District Council there is an agreement to share certain costs. The following costs were paid in respect of the 2015/16 financial year:

<u>ICT – Hosted by Horsham Council District Council</u>		Outstanding at 31.03.2016 (due to HDC)
	£000	£000
Mid Sussex	953	29
Horsham	826	0
Adur & Worthing	1,496	(13)

<u>Revenues and Benefits – hosted by Mid Sussex District Council</u>		Outstanding at 31.03.2016 (payable to MSDC)
	£000	£000
Mid Sussex	1,021	0
Horsham	977	(71)
Adur	795	0

Building Control

Horsham District Council provides the Building Control service for Crawley Borough Council. Crawley discharged this function under an agreement pursuant to sections 101 and 111 of the Local Government Act 1972, section 3 of the Local Government Act 1999 and the Local Authorities (Arrangements for the Discharge of Functions)(England) Regulations 2000/2851. The total contribution paid by Crawley for 2015/16 amounted to £280k and £64k was outstanding as at 31 March 2016.

Procurement Service - shared resource

The procurement staff within Crawley and Horsham have been pooled and are treated as a shared resource between Crawley, Horsham and Mid Sussex. In 2015/16 the costs for each authority were:

	£000	Outstanding at 31.03.2016 (due to HDC) £000
Crawley	60	(4)
Horsham	60	0
Mid Sussex	51	12

Access Officer - shared resource

The Access Officer role is a shared resource utilised by Horsham DC and Crawley BC. In 2015/16 the costs for each authority were:

	£000	Outstanding at 31.03.2016 (due to HDC) £000
Crawley	8	2
Horsham	32	0

32 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2015/16 £000	2014/15 £000
Opening Capital Financing Requirement	11,986	10,964
Capital Investment		
Property, Plant & Equipment	2,441	2,854
Investment Properties	1,770	0
Intangible Assets	5	227
Revenue Expenditure Funded from Capital Under Statute	3,210	2,245
Sources of finance		
Capital receipts	(2,366)	(1,396)
Government grants and other contributions	(3,004)	(1,588)
Direct revenue contributions	0	(573)
Minimum Revenue Provision	(787)	(747)
Closing Capital Financing Requirement	<u>13,255</u>	<u>11,986</u>
Explanation of movements in year		
Increase in underlying need to borrowing	2,056	1,769
Minimum Revenue Provision	(787)	(747)
Increase/ (decrease) in Capital Financing Requirement	<u>1,269</u>	<u>1,022</u>

33 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 authority 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 2015/16 these amounted to £110k (£109k in 2014/15) representing 1% of pensionable pay (1% in 2014/15).

Change in accounting policy

The council has adopted the amendment to IAS19, Retirement benefits. The change requires the recognition of a number of new classes of components of defined benefit costs - net interest on the net defined liability/(asset) and re-measurement of the net defined liability/(asset); and where there is material impact, new definitions or recognition criteria for termination benefits. The statements being reported reflect these changes and have restated figures and enhanced disclosure where relevant.

Transactions Relating to Post-employment Benefits

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

The Council has a shared service arrangement with Mid Sussex and Adur District Councils for the Revenues and Benefits service and with the same authorities and Worthing Borough Council for central information technology service. The Revenues and Benefits Service is hosted by Mid Sussex and the Information Technology service is hosted by Horsham. Each partner shows its share of the pension assets and liabilities in the accounts.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

<u>Comprehensive Income and Expenditure Statement</u>	2015/16	2014/15
	£000	£000
<u>Cost of Services</u>		
- current service cost	(3,625)	(2,807)
- past service costs	(0)	(153)
Total Service Cost	(3,625)	(2,960)
<u>Financing and Investment Income and Expenditure</u>		
Interest income on planned assets	4,315	5,080
Interest cost on defined benefit obligation	(4,765)	(5,448)
Total Net Interest	(450)	(368)
Total Post Employment Benefit Charged to the Surplus or deficit on the provision of services	(4,075)	(3,328)
<u>Re-measurements of the Net Defined Liability</u>		
Actuarial gains/(losses) arising from changes in financial assumptions	12,886	(18,006)
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	1,866	1,022
Return on assets excluding amounts included in net interest	(1,491)	12,828
Total re-measurements recognised in other comprehensive income	13,261	(4,156)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(9,186)	(7,484)
<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	(1,725)	(1,037)
Employers contributions payable to scheme	(2,350)	(2,291)

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	2015/16 Census £000	2015/16 HDC £000	2014/15 Census £000	2014/15 HDC £000
Present value of liabilities - Funded	(6,056)	(131,041)	(6,558)	(140,631)
Present value of liabilities - Un funded	0	(1,609)	0	(1,763)
Fair value of plan assets	6,668	130,163	6,394	129,146
Net liability arising from defined benefit obligation	612	(2,487)	(164)	(13,248)

Funded Liabilities - LGPS

	2015/16 Census £000	2015/16 HDC £000	2014/15 Census £000	2014/15 HDC £000
Reconciliation of present value of the scheme liabilities:				
Balance at 1 April	(6,558)	(142,394)	(5,132)	(122,058)
Current service cost	(241)	(3,384)	(215)	(2,592)
Interest cost	(216)	(4,549)	(222)	(5,226)
Contributions by scheme participants	(50)	(742)	(61)	(699)
Actuarial gains and losses	960	13,792	(968)	(16,016)
Benefits paid	49	4,627	54	4,336
Past service costs	0	0	(14)	(139)
Balance at 31 March	(6,056)	(132,650)	(6,558)	(142,394)

Reconciliation of fair value of the scheme assets:

Balance at 1 April	6,394	129,146	5,419	113,552
Interest income on planned assets	210	4,106	232	4,848
Return on planned assets (excluding amounts in net interest)	(76)	(1,415)	587	12,241
Employer contributions	139	2,211	149	2,142
Contributions by scheme participants	50	742	61	699
Benefits paid	(49)	(4,627)	(54)	(4,336)
Balance at 31 March	6,668	130,163	6,394	129,146

LGPS Assets comprised:

Fair Value of scheme assets at 31 March

	2016			2015		
	Census £000	HDC £000	Total % of assets	Census £000	HDC £000	Total % of assets
Equity Securities:						
Consumer	1,089.3	21,262.9	16.3%	963.6	19,460.4	15.1%
Manufacturing	227.9	4,449.0	3.4%	561.3	11,335.7	8.8%
Energy & Utilities	230.6	4,502.2	3.5%	284.6	5,747.4	4.4%
Financial Institutions	1,080.2	21,085.4	16.2%	1,004.3	20,281.8	15.7%
Health & Care	430.4	8,401.9	6.5%	425.4	8,591.1	6.7%
Information Technology	861.4	16,815.4	12.9%	824.0	16,641.2	12.9%
Other	583.6	11,393.4	8.8%	224.3	4,529.2	3.5%
Debt Securities:						
UK Government	116.1	2,266.2	1.7%	130.4	2,634.2	2.0%
Private Equity:						
All	320.5	6,255.9	4.8%	348.2	7,032.7	5.4%
Real Estate:						
UK Property	601.7	11,744.8	8.8%	414.4	8,368.7	6.5%
Overseas Property	0.7	14.2	0.1%	3.5	71.3	0.1%
Investment Funds & Unit Trusts:						
Equities						
Bonds	937.0	18,290.0	14.1%	880.2	17,775.2	13.8%
Other	51.1	998.2	0.8%	47.1	950.2	0.7%
Cash & cash Equivalents: All						
	137.5	2,683.5	2.1%	283.6	5,726.9	4.4%
	6,668	130,163	100%	6,394	129,146	100%

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

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £1.875m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in an overall balance of £126.898m.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy as the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by Hymans Robertson LLP the scheme's actuary. The total contributions expected by the actuaries that are to be made to the Local Government Pension scheme by the council in the year to 31 March 2017 is £2.359m (this includes £150k estimated for the HDC share of Census).

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The pension scheme is assessed by Hymans Robertson for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

		<u>2015/16</u>	<u>2014/15</u>
Long term expected rate of return on assets in the scheme:			
Mortality assumptions:			
Longevity at 65 for current pensioners:	Men	24.4	24.4
	Women	25.8	25.8
Longevity at 65 for future pensioners:	Men	26.9	26.9
	Women	28.5	28.5
Rate of inflation / pension		2.2%	2.4%
Rate of increase in salaries		3.7%	3.8%
Rate of discounting scheme liabilities		3.5%	3.2%

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 following sensitivity analyses 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.

34 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 authority.

Property Search Companies are making claims against local authorities for legal costs following their litigation success in relation to access land data charges. The potential liability for Horsham is £190k however all affected councils will seek to recover the costs from Central Government through the new burdens doctrine, as they did with the original claims.

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

35 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- a) **Credit Risk** – the possibility that other parties might fail to pay amounts due to the Council
- b) **Liquidity Risk** – the possibility that the Council might not have funds available to meet its commitments to make payments
- c) **Market Risk** – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements

Credit Risk

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

The detailed Strategy is approved each year by the Council and incorporates indicators stipulated by the CIPFA codes on Treasury Management and CIPFA prudential code. The authorised limit for external borrowing in 2015/16 was £15m. The limit per institution, excluding UK Government or Local Authority, for unsecured investment was £2.5m. The limit for long term investment was £8m. The actual performance against Treasury Management Strategy is reviewed by the Accounts, Audit and Governance Committee of the Council annually.

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

	31.03.2016	31.03.2015
	£000	£000
AAA rated counterparties	13,459	12,476
AA rated counterparties	13	3,006
A rated counterparties	8,912	7,167
BBB rated counterparties	4,440	0
Unrated Local Authorities	<u>5,000</u>	<u>2,000</u>
Total	31,824	24,649

The trade debtors figure takes into account the bad debt provision which is based on the best estimate of default so no further default estimate is shown.

The Council does not generally allow credit for its trade debtors, such that £391k of the £669k balance is past its due date for payment.

The past due amount can be analysed as follows:

Age	31.03.2016	31.03.2015
	£000s	£000s
Less than three months	218	696
Three to six months	46	128
Six months to one year	31	115
More than one year	<u>96</u>	<u>63</u>
Total	<u>391</u>	<u>1,002</u>

Liquidity Risk

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

The Council has an overdraft facility of £0.5m and can borrow from the money markets to cover any day to day cash flow need. The PWLB also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial liabilities is as follows:

	31.03.2016	31.03.2015
	£000s	£000s
Less than one year	8,499	8,290
Between one and two years	0	0
Between two and five years	4,000	4,000
More than five years	0	0
Total	<u>12,499</u>	<u>12,290</u>

Market Risk

Interest rate risk

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

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

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

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

Sensitivity to Interest Rate Changes

The Council does not hold borrowings or investments at variable rates so there is no direct link to the net income of the Council. To some extent the call deposits and maturing fixed rate investments would be affected by a persisting change to rates. The Council also holds variable net asset value money market funds whose price may be affected by interest rate changes indirectly as the funds comprise some fixed rate instruments.

To give some guide to the magnitude of the possible effect if all other variables stayed the same and a rate change of 1% were to apply to the investments held at 31 March 2016 the financial effect would be:

	£000
Increase in income receivable	(253)
Impact on surplus and deficit on provision of services	(253)
Decrease in fair value of loans and receivables*	24
Decrease in fair value of fixed rate borrowing*	(120)

*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.

Price Risk

The market prices of the Council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk. At date of these statements the Council holds a certificate of deposit of £2m which is marketable but will be held to maturity in August 2016

COLLECTION FUND

2014-15			2015-16		
Business Rates	Council Tax	Total	Business Rates	Council Tax	Total
£000	£000	£000	£000	£000	£000
			INCOME		
0	84,260	84,260	0	86,404	86,404
39,492	0	39,492	41,039	0	41,039
			Transfers from General Fund		
0	3	3	0	3	3
(138)	0	(138)	340	0	340
<u>39,354</u>	<u>84,263</u>	<u>123,617</u>	<u>41,379</u>	<u>86,407</u>	<u>127,786</u>
			Total Income		
			EXPENDITURE		
			Apportionment of Previous Year Surplus/(Deficit)		
0	0	0	(577)	184	(393)
0	0	0	(144)	1,173	1,029
0	0	0	0	143	143
<u>0</u>	<u>0</u>	<u>0</u>	<u>(722)</u>	<u>0</u>	<u>(722)</u>
			(1,443)	1,500	57
			Precepts, Demands and Shares		
15,577	10,085	25,662	15,916	10,421	26,337
3,894	64,573	68,467	3,979	66,043	70,022
0	7,841	7,841	0	8,179	8,179
19,472	0	19,472	19,895	0	19,895
<u>38,943</u>	<u>82,499</u>	<u>121,442</u>	<u>39,790</u>	<u>84,643</u>	<u>124,433</u>
			Charges to Collection Fund		
524	167	691	153	74	227
121	105	226	311	179	490
1,557	0	1,557	926	0	926
178	0	178	177	0	177
<u>2,380</u>	<u>272</u>	<u>2,652</u>	<u>1,567</u>	<u>253</u>	<u>1,820</u>
<u>41,323</u>	<u>82,771</u>	<u>124,094</u>	<u>39,914</u>	<u>86,396</u>	<u>126,310</u>
			Total Expenditure		
(1,969)	1,492	(477)	1,465	11	1,476
(852)	1,282	430	(2,821)	2,774	(47)
<u>(2,821)</u>	<u>2,774</u>	<u>(47)</u>	<u>(1,356)</u>	<u>2,785</u>	<u>1,429</u>
			Surplus / Deficit (-) carried forward 31 March		

NOTES TO THE COLLECTION FUND

The Collection Fund is an agent's statement which represents the statutory requirement for each billing authority to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to Non-Domestic Rates and Council Tax and illustrates the way in which these have been distributed to preceptors and the General Fund. Collection Fund surpluses or deficits declared by the billing authority are apportioned to the relevant precepting bodies in the subsequent financial year.

The accounts have been prepared on an accruals basis.

1 COUNCIL TAX

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

BAND	VALUE RANGE	PROPORTION OF BAND "D"	BAND "D" EQUIVALENT NO.OF PROPERTIES
	£		
Reduced A	up to 40,000	5/9	1
A	up to 40,000	6/9	857
B	40,000-52,000	7/9	2,639
C	52,000-68,000	8/9	8,323
D	68,000-88,000	1	10,769
E	88,000-120,000	11/9	11,324
F	120,000-160,000	13/9	10,328
G	160,000-320,000	15/9	11,180
H	over 320,000	2	1,415
	COUNCIL TAX BASE		56,836

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 Mar 2016 was £103.714m and the National Non-Domestic Rate multiplier for the year was 0.493.

3 COUNCIL TAX AND BUSINESS RATES PRECEPTS AND DEMANDS

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

	31 March 2016
	£000
Accumulated Surplus at 31.03.2016	1,429

Apportionment based on 2015/16 precepts and demands:

	<u>Business</u> Rates £000	<u>Council</u> Tax £000	Total £000
Horsham District Council	(542)	343	(199)
Sussex Police Authority	0	269	269
West Sussex County Council	(136)	2,173	2,037
Central Government	(678)	0	(678)
	(1,356)	2,785	1,429

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 authority, payments to precepting authorities, central government and its own general fund.
COUNCIL TAX	A locally determined charge based on property values and levied by a local authority to enable it to provide its services.
CREDITORS	Individuals and organisations to which the Council owes money.
DEBTORS	Individuals and organisations who owe money to the Council.
DEPRECIATION	A charge to a revenue account to reflect the reduction in the useful economic life of a fixed asset.
EARMARKED RESERVES	Amounts set aside for specific purposes falling outside the definition of provisions.
FAIR VALUE	Amount for which an asset could be exchanged or liability settles between knowledgeable parties with no other motive than to secure a fair price. 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 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 an authority 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 an authority's revenue account to be set aside to pay back debt.
NATIONAL NON-DOMESTIC RATES (NDR)	This is the charge payable on all business premises and is calculated by multiplying the rateable value of the property by a nationally set rate multiplier.
PRECEPT	An amount charged to the Collection Fund to finance services provided by another authority e.g. County and parish councils.
PRECEPTING AUTHORITIES PROVISION	Those authorities which are able to raise a precept. 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 (PWLBB)	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 Accounts, Audit & Governance Committee

13th September 2016

By the Director of Corporate Resources

INFORMATION REPORT



Not exempt

Annual Governance Statement 2015/16

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 2015/16. 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 2015/16.

Reasons for Recommendations

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

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

Consultation: The Senior Leadership Team, Monitoring Officer, Head of Community & Culture, Head of Finance, HR & OD Manager, and the Commissioning & Performance Manager.

Wards affected: All

Contact: Paul Miller, Chief Internal Auditor, 01403-215319

Background Information

1 Introduction and Background

- 1.1 The Accounts and Audit (England) Regulations 2011 require the Council to review, at least annually, the effectiveness of its governance arrangements and publish an Annual Governance Statement.
- 1.2 Senior officers have been consulted and supporting documentation has been updated to reflect the current position.
- 1.3 The Annual Governance Statement was presented to the June 2016 Accounts Audit and Governance Committee meeting in “draft” form for comment.

2 Relevant Council Policy

The Accounts, Audit and Governance 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 2015/16 is attached in Appendix 1.

4 Next Steps

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

5 Outcome of Consultations

- 5.1 Key officers have been consulted when compiling the Annual Governance Statement, including the Senior Leadership Team; Monitoring Officer; Head of Community & Culture; Head of Finance; Human Resources and Organisational Development Manager; Commissioning & Performance Manager; and the Chief Internal Auditor. In addition, Service Managers 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 4 of The Accounts and Audit (England) Regulations 2011 requires that:-

8.1(1) the Council shall be responsible for ensuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk; and

8.1(2) the Council shall conduct a review at least once in a year of the effectiveness of its system of internal control; and

8.1(3) a) the findings of the review must be considered by the Members of the Council meeting as a whole or by a committee

b) following the review the body or committee must approve an Annual Governance Statement prepared in accordance with proper practices in relation to internal control; and

8.1(4) the Annual Governance Statement shall accompany the Statement of Accounts.

8.2 In 2007 CIPFA/SOLACE published a framework for Corporate Governance: "Delivering Good Governance in Local Government Framework". This framework provides a useful and practical update to the original Framework and follows the six core principles of good governance outlined in the Good Governance Standard for Public Services (2004) which was developed by the Commission on Good Governance in Public Services. CIPFA and SOLACE reviewed the Framework in 2012 to ensure that it remains "fit for purpose". The Framework urges local authorities to review and report on the effectiveness of the governance arrangements.

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.

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**Horsham District Council
Annual Governance Statement 2015-16****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.

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

Horsham District Council has approved and adopted a Local Code of Corporate Governance (11th December 2013) 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. The Local Code of Corporate Governance is included within Part 5F of the Council's Constitution. A copy of the Local Code is available on our website or can be obtained from 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 2011 regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Horsham District Council's policy aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Horsham District Council for the year ended 31 March 2016 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2015/16 financial year.

3. THE GOVERNANCE FRAMEWORK

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:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
5. Developing the capacity and capability of Members and officers to be effective and efficient.
6. Engaging with local people and other stakeholders to ensure robust accountability.

4. VISION AND OBJECTIVES

The Council published the last District Plan in February 2011. It covers the period 2011-2015 and an interim District Plan has been in place during 2015/16. The District Plan outlines the Council's vision, aims and objectives and is aligned to the Corporate Governance Framework.

- The Council aims to deliver high quality services that meet the needs of the local community. This is set out in the Council's District Plan for Horsham 2011–2015 and also in the interim District Plan for 2015/16 which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. The District Plan sets out the Council's vision for working in partnership over the longer term and is formally reviewed and updated each year. The interim District Plan is in place to cover the period from April 2015 to the end of March 2016.
- The District Plan and interim District Plan 2015/16 are available to local people on paper (on request) or on the Council's website.
- The District 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.
- A new Corporate Plan for 2016/19 (which will replace the District Plan) is currently under development.
- Departmental strategies and service plans are developed annually to support the delivery of the District Plan. They explain in detail how each department contributes to the delivery of the overall aims and objectives of the District Plan.
- The Council's Performance Management Framework includes key performance indicators associated with the District Plan. Performance on a basket of key corporate indicators against targets is reported to the Senior Leadership Team, the Cabinet Portfolio Holders and to the Scrutiny and Overview Committee. The results of the performance against target for each indicator are published on the Council's website in the Performance Indicator End of Year Report. Explanations for poor performance have to be provided by the responsible manager. This process helps to ensure that performance statements and other published information is accurate and reliable.

- The Council's Annual Performance Report, which is published on the Council's website, provides an annual summary of the year's progress against the stated District Plan priorities.
- Every report submitted to the Cabinet or regulatory committee must outline how the recommended action helps to achieve one or more of the District Plan priorities.

5. MEMBERS AND OFFICERS WORKING TOGETHER

The Council's Constitution gives guidance on the roles and responsibilities of Members, the Chief Executive and Chief Officers, and the Scheme of Delegation is periodically reviewed. The Constitution also includes a Member/Officer Protocol. 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 Member Group was formed in August 2015 to review the governance arrangements at the Council and in particular to decide on the strengths and weaknesses of the Cabinet versus the Committee Systems of Governance. That review has now been completed with a final report to Full Council on 27 April 2016. The Governance Review has focused on ensuring Horsham District Council has the most suitable and effective governance arrangements whilst at the same time the process of review has greatly engaged with Members (there have been three 'All Councillor' briefings, visits by Members to other local authorities and individual briefings and discussions with back bench Members). This process has widened the collective knowledge and understanding amongst Members.

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

Members and senior officers work together helped by a 'Leading Together' away day which focused on improving working relations and understanding the differing perspectives of officers, Members and other stakeholders.

The Council participates in a number of partnerships with other local authorities. In particular the Revenues and Benefits and ICT services are delivered by the CenSus (**Central Sussex**) Partnership, and Building Control services are provided in partnership with Crawley Borough Council. The Council also engages in local community development work with other local public bodies.

6. VALUES AND HIGH STANDARDS OF BEHAVIOUR

The Council has incorporated in its Constitution a Member Code of Conduct and an Employee Code of Conduct. A register of declared interests is held for officers. Member's Registers are available on the Council's website. Members are required to review their registers annually. 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.

The organisation has developed with its staff core values of 'customer focus', 'achieving excellence' and 'our people' (working together, investing in people, training and encouraging responsibility). Desired behaviours are set out in the staff and manager's capabilities which form part of the annual performance appraisal.

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

7. 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 Constitution Review Group of Members will be appointed by Council to undertake a full review of the Constitution ensuring the Council has a modern and fit for purpose document. The target date for completion of the review is September 2016.

The Council's Risk Management arrangements are reviewed for effectiveness by the Accounts Audit and Governance Committee to ensure the process is embedded in the culture of the authority. All major projects incorporate a full risk assessment prior to commencement and at key decision points.

All service managers 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 has facilitated a comprehensive review by each service manager of each departmental risk register during 2015/16, as well as the corporate risk register.

Internal Audit provides an opinion on the effectiveness of the risk management framework annually in the end of year report published in June.

8. CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS

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

New Members to the Council receive induction training in key areas (including the Constitution), ethical governance, decision-making processes and the Council's Code of Members' Conduct. The induction also includes an introduction to the Council's services. All new Members are allocated a 'buddy' who is a senior Council officer tasked with helping the new Members to settle into the Council. There is an ongoing training programme of Member briefings on important areas of the Council's work. There is also ongoing training covering specific issues in a variety of areas.

9. ENGAGEMENT WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS

The Council conducts a wide range of service specific surveys to ascertain the views and needs of its residents. A priority within the District Plan is "the customer is at the heart of what we do" and a key element of that priority is to consult residents, businesses and staff, all of whom regularly provide feedback.

The Council works hard to communicate (and to receive feedback on) its aims for the District. The Council consults with Parish Councils and the Rural Towns Forum (i.e. a consortium of parish level Community Partnerships). It is a leading partner within the Think Family Partnership, Community Safety and Health and Wellbeing Partnerships, linking statutory and non-statutory agencies to provide a co-ordinated approach to delivery of the programme across the District. The Council works with voluntary and community sector partners to ensure effective provision of community engagement activities across the district. These partnerships share feedback from their own stakeholder consultation.

These groups help the Council to assess the priorities of different sections of the community that have different needs. A wide range of service specific surveys are conducted to ascertain the views and needs of residents and partners, particularly in areas such as Think Family Neighbourhoods, Grants and funding, Parish Councils where resources are being targeted. Compliments and complaints received are monitored and a quarterly report is submitted to the Finance and Performance Working Group.

10. DETAILS OF KEY GOVERNANCE MECHANISMS

Sources of assurance received for each of the core principles are set out in Appendix 2.

11. 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. Following a Council decision in April 2015, a Member group was formed to carry out a review of governance at the Council focussing on political structure and the decision-making process at a high level. The review was completed in April 2016 when recommendations were made to Council. These recommendations were unanimously approved by Members, and included endorsement of the Cabinet system supported by formal advisory groups; all key decisions to be made by Cabinet in public meetings and an increase in the financial threshold to £250k bringing the Council into line with comparator authorities. At the meeting in April 2016, Members also agreed to form a Constitution Review Group to review the Council's Constitution. The terms of reference were to make the Council's Constitution less bureaucratic and simplified therefore making it more user friendly with greater openness and transparency.

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

- The Council comprises 44 Members and, as a whole, takes decisions on budget and policy framework matters as defined by the Constitution, including deciding on the aims and objectives of the Council as set out in the District Plan.

- The Scrutiny and Overview Committee is able to scrutinise the decisions of the Cabinet and maintains an overview of Council activities which includes monitoring performance management.
- Finance and Performance Sub-Committee, a sub-committee of Overview and Scrutiny Committee. The Cabinet is ultimately responsible for considering overall financial and performance management. Budget and performance monitoring reports are received on a quarterly basis.
- 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 Accounts, Audit and Governance Committee meets quarterly to review the Council's risk management arrangements and reports prepared by the Chief Internal Auditor on the control environment. It also reviews the Council's Treasury Management and Investment Strategies and has delegated authority to review and approve the statutory financial statements and consider reports from the Council's external auditors.
- The role of the Director of Corporate Resources (as Chief Financial Officer) includes stewardship and probity in the use of resources and performance, extracting best value from the use of those resources. The Chief Financial Officer complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.
- An annual audit plan is developed, in consultation with senior managers, which outlines the assignments to be carried out and estimated resources. The audit plan is sufficiently flexible to enable the Internal Audit team to respond to changing risks and priorities of the organisation.
- The Head of Legal and Democratic Services (as Monitoring Officer) has a duty to ensure that operations are carried out lawfully.

12. IMPROVEMENTS DURING THE YEAR

The following improvements to the Governance Framework were recognised during 2015/16:

- The Member review of governance arrangements and formation of the Constitutional Review Group.
- A new officer governance group has been formed which meets quarterly. This group takes a high level overview of the Council's governance arrangements and comprises the Section 151 Officer, Monitoring Officer and Chief Internal Auditor.
- A new asset management system (Elf) was fully implemented in September 2015 improving management information used for decision-making.
- Reports to the quarterly meetings of the Finance and Performance Working Group have been revised to show financial and performance information together for each of the Council's service areas with a commentary by each of the Council's Service Managers. This has been well received by Members, enabling better Member understanding of corporate performance.
- The Council's Contract Standing Orders and Procurement Code have been updated to reflect the new EU Procurement Regulations.
- The Council's corporate and departmental risk registers have been comprehensively updated following the 2014/15 independent review of the Council's risk management arrangements. New service plans have been developed by all service managers.

- A review of performance indicators has been undertaken by Service Managers and the Senior Leadership Team to ensure that these are meaningful and useful in helping services to achieve their objectives.
- The Council's complaints process has been reviewed and revised from a three stage process to a two stage process for the purpose of improving speed and quality of response and making efficiency savings.
- A Governance Framework diagram showing sources of assurance has been developed for Horsham D.C. (see Appendix 3).

13. SIGNIFICANT GOVERNANCE ISSUES

The 2014/15 Annual Governance Statement included an Action plan for 2015/16. Progress against the risks identified is reported in Appendix 4.

New significant governance issues are reported to the Accounts, Audit and Governance Committee. At the current time no significant governance issues have been identified but a number of recommendations for improvement are set out in a new action plan in Appendix 5.

Certification

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

Signed

.....

Leader of the Council

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

.....

Chief Executive

Sources of Assurance**1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.**

- a) The Council will exercise strategic leadership by developing and clearly communicating our purpose and vision and the intended outcome for citizens and service users.
- b) The Council will ensure that users receive a high quality of service whether directly, or in partnership, or by commissioning.
- c) The Council will ensure that we make best use of resources and that tax payers and service users receive excellent value for money.

The Council's District Plan for 2011/15 and interim 2015/16 Plan consists of six key areas covering:

- Economic Development: Plan for a successful local economy with high levels of employment.
- Efficiency and Taxation: Delivering excellent value and high performance.
- Arts, Heritage and Leisure: Build an arts, leisure and culture reputation that also supports our economy.
- Living, Working Communities: Working together to support the life of local communities.
- Environment: A better environment for today and tomorrow.
- Safer and Healthier: Improving health and well-being.

Annual Departmental Service Plans are derived from the aims and objectives set out in the District Plan.

The Council has a Medium Term Financial Strategy which links the Council's finances to the Corporate priorities and sets out the strategic financial policies, a medium term financial forecast and budget guidelines for the forthcoming year.

The Council's Budget, which is developed from the Medium Term Financial Strategy, is approved annually to provide appropriate resources to enable the achievement of the Council's District Plan.

The Council has a performance management framework to monitor progress against the Council's aims and objectives. This includes a set of Performance Indicators which are monitored regularly by officers and Members.

The Council publishes an Annual Report which provides an update on progress being made against Council aims and objectives. This is published on the Council's website.

The Council's Corporate Procurement Strategy, Commissioning Framework and Procurement Code (revised in October 2015) ensure that value for money is achieved when money is spent.

The Council has a formal complaints procedure which is published on its website or is accessible from the Council offices. It encourages residents to contact the Council and feedback is welcomed. Quarterly reports summarising complaints and compliments are submitted to the Finance and Performance Working Group (a working group of the Scrutiny and Overview Committee). This has been reviewed and revised for 2015 for the purpose of improving speed of response and making efficiency savings.

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.

- a) The Council will ensure effective leadership throughout the authority and be clear about Executive and non-Executive functions and of the roles and responsibilities of the Scrutiny function.
- b) The Council will ensure that a constructive working relationship exists between Council Members and officers and that the responsibilities of Members and officers are carried out to a high standard.
- c) The Council will ensure that our relationships with our partners and the public are clear so that each knows what to expect from each other.

The Council's Constitution sets out how the Council operates, how decisions are made and which Codes of Conduct are followed.

Member roles are set out in Part 2 of the Council's Constitution.

The Constitution includes a Member / Officer protocol which is contained in Part 5G.

The Constitution is published on the Council's website.

The Council has rules which officers are expected to comply with, for example, Financial Regulations, Contract Standing Orders and the Procurement Code which are included in the Constitution.

The Chief Executive is responsible and accountable to the authority for all aspects of operational management.

The Council has a Monitoring Officer to fulfil those duties specified by legislation, to report on any contraventions of any enactment or rule of law and to advise on the probity and policy framework (as set out in the Constitution).

The Council has a Performance Management Framework which reports on a set of key Performance Indicators to officers and Members.

Partnership agreements are in place for each of the Council's strategic partnerships setting out the partnership principles and objectives, roles and responsibilities and setting out clear accountability for proper financial administration.

The Council's Constitution includes a Partnership Protocol (section 5H).

3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

- a) The Council will ensure that Members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance.
- b) The Council will ensure that organisational values are put into practice and are effective.

Member and Officer Codes of Conduct which are included in the Constitution set out the values and behaviours that the Council expects Members and officers to adopt. These have been revised to fulfil the requirements of the Localism Act 2011.

The Constitution includes Rules of Procedure governing the meetings of the Council. These describe the expected conduct at meetings.

The Council has an Anti-Fraud and Corruption Policy designed to encourage the prevention and promote the detection of fraud. The Council also has an anti-money laundering policy in place.

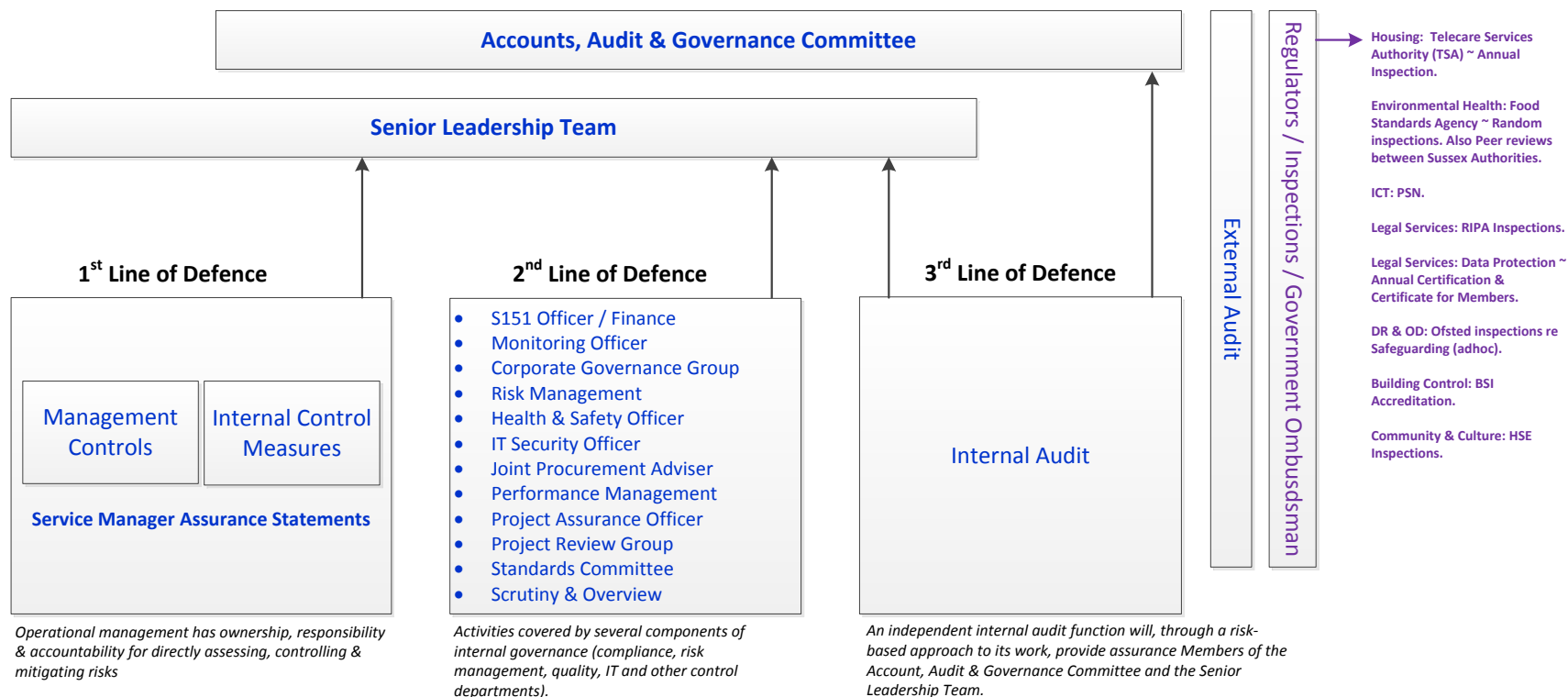
Member and Officer Registers of Interest, Gifts and Hospitality are maintained to safeguard both Members and officers against conflicts of interest.
The Standards Committee has put in place arrangements to consider complaints or allegations made against Councillors, as required by the Localism Act 2011.
Core competences have been defined for officers. The Council has a performance appraisal process in place which ensures officers are monitored against these.
Member and officer training sets out the standards of behaviour expected.
The Council has a Whistleblowing Policy in place which forms part of the Officer Code of Conduct.
<p>4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.</p> <p>a) The Council will be rigorous and transparent about how decisions are taken and listen and act on the outcome of constructive scrutiny.</p> <p>b) The Council will use good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs.</p> <p>c) The Council will ensure that an effective risk management system is in place.</p> <p>d) The Council will use its legal powers to the full benefit of its citizens and communities in their area.</p>
The Constitution sets out how the Council operates, how decisions are made and the procedures and codes of conduct that are followed.
The Council has a Scrutiny and Overview Committee which reviews the Council's decision making processes and monitors the internal and external delivery of services.
The Agendas and minutes of the committee are published on the Council's website and contain evidence of improvements resulting from reviews undertaken.
The Council's Constitution sets out decision making protocols. Decisions are recorded in Council/Committee minutes together with details of any professional advice sought.
An effective Internal Audit section is maintained which reports to the Accounts, Audit and Governance committee. The Chief Internal Auditor is a fully qualified member of the Chartered Institute of Internal Auditors and follows the Public Sector Internal Audit Standards. One of the key roles of Internal Audit is to ensure there are robust systems of internal control in place to mitigate risks and provide assurance to Members.
The Accounts, Audit and Governance Committee meets quarterly and reviews the effectiveness of the control environment and risk management framework. The Committee reviews reports from the Chief Internal Auditor at each meeting presenting the outcomes of his work programme and highlighting any areas of concern.
There are formal procedures for dealing with complaints. Details are available on the Council's website.
The Council's Chief Finance Officer (S.151 Officer) complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.
On an annual basis the Council publishes the Annual Statement of Accounts which is audited by the Council's external auditors, Ernst & Young LLP and is approved by the Accounts, Audit and Governance Committee.

<p>The Council has a Risk Management Strategy which was last reviewed and updated 07/12/15. The Council's Senior Leadership Team formally reviews the Corporate Risk Register quarterly, and the updated version is submitted to the Accounts, Audit and Governance Committee for information / comment.</p>
<p>The Council's Monitoring Officer is responsible for advising the Council if any proposal would give rise to unlawfulness or maladministration. This is a key function in ensuring lawfulness and fairness in the operation of the Council's decision making process.</p>
<p>Committee reports are reviewed by the Council's senior lawyers to identify potential problems. There is also legal involvement in report development and legal advisors are present at decision making committees, as and when required.</p>
<p>5. Developing the capacity and capability of Members and officers to be effective.</p> <p>a) The Council will make sure that Members and officers have the skills, knowledge, experience and resources they need to perform well in their roles.</p> <p>b) The Council will develop the capability of people with governance responsibilities and evaluate their performance, as individuals and as a group.</p> <p>c) The Council will encourage new talent for membership of the authority so that the best use can be made of individuals' skills and resources in balancing continuity and renewal.</p>
<p>An Induction Programme is in place for both Members and employees.</p>
<p>Officers are provided with the training required for them to perform their roles effectively. Training needs are identified through the Council's Performance Development Appraisal system.</p>
<p>Role profiles set out officer roles and responsibilities for all posts. These are reviewed and updated annually as part of the staff appraisal process.</p>
<p>The Officer Performance Review system ensures appraisals are undertaken annually for all staff. Staff development plans are reviewed and updated as part of this process.</p>
<p>The Standards Committee deals with issues relating to Member performance.</p>
<p>The Council offers a number of opportunities as part of the National Apprenticeship Programme. Those who take part gain valuable experience and a nationally recognised qualification.</p>
<p>The Council organises Manager's conferences enabling managers to meet to consider current issues affecting the Council and work together to identify solutions.</p>
<p>6. Engaging with local people and other stakeholders to ensure robust accountability.</p> <p>b) The Council will exercise leadership through a robust Scrutiny function, which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.</p> <p>c) The Council will take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service.</p> <p>d) The Council will make best use of human resources by taking an active and planned approach to meet responsibilities to staff.</p>
<p>The Constitution sets out how the Council operates, how decisions are made and the procedures and codes of conduct that are followed.</p>

<p>The Council has a Scrutiny and Overview Committee which reviews the Council's decision making processes and monitors the internal and external delivery of services.</p>
<p>The Accounts, Audit and Governance Committee is independent of Cabinet and Scrutiny functions. It received reports on the work of Internal and External Audit and Risk Management.</p>
<p>The Council undertakes a Residents Survey every three years which informs the development of the District Plan.</p>
<p>The Council supports local communities who produce their own Neighbourhood Plans providing a vision for their area.</p>
<p>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.</p>
<p>The majority of the Council's meetings are open to the public. Agendas, papers and minutes are published on the Council's website.</p>
<p>The Council facilitates a number of focus groups (the Youth Panel, Older People's Panel, Access Group) which provide feedback on issues concerning these groups.</p>
<p>The Council communicates with staff by means of regular information cascade meetings organised by the Senior Leadership Team; director's meetings; team meetings; Chief Executive Talks; Chief Executive's blog, the "Council Matters" publication and update messages on the Staff Intranet.</p>
<p>The Performance Appraisal system provides opportunities to review employee performance and consider personal development needs in relation to the employee's role.</p>



ASSURANCE FRAMEWORK



Page 111

Operational management has ownership, responsibility & accountability for directly assessing, controlling & mitigating risks

Activities covered by several components of internal governance (compliance, risk management, quality, IT and other control departments).

An independent internal audit function will, through a risk-based approach to its work, provide assurance Members of the Account, Audit & Governance Committee and the Senior Leadership Team.

Assurance Framework Documentation

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

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

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

ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2015/16

No.	Area for Improvement	Actions	Responsible Officer	Outcomes
1.	<u>Assurance Framework.</u> Second and third line assurance defence levels need to be identified so that these can feed into the Council's Annual Governance Statement for 2015/16.	A formal assurance framework will be developed.	Director of Corporate Resources / Chief Internal Auditor	An assurance framework has been developed.
2.	<u>Constitution.</u> The Council's Constitution is currently based on the 2000 model and needs to be re-written. This will improve the Council's governance arrangements and will help to improve engagement with Members.	The Council's Constitution will be re-written in consultation with Members and senior officers.	Monitoring Officer	Progress has been made. Needs to be carried forward to 31/12/16 (see Appendix 5).
3.	<u>Values / Behaviours</u>	The behaviour framework will be further developed to match all of the organisation's values.	HR & OD Manager	The implementation date has been carried forward to 31/03/17 (see Appendix 5).
4.	<u>Health and Safety</u>	Agreed actions following an internal audit review of health & safety will be implemented by the end of the calendar year.	Chief Executive	High risk areas have been implemented. A new work plan has now been written by the Corporate Health & Safety Advisor.

ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2016/17

No.	Area for Improvement	Actions	Responsible Officer	Target Date
1.	Budget holders to undertake their budget monitoring every month and provide more accurate outturn forecasts.	<p>Monitoring of all budget holders on the frequency and accuracy of budget monitoring and forecasting. Regular failure to undertake budget monitoring and accurate forecasting to be more robustly dealt with through people management processes.</p> <p>Local training for budget holders to improve outturn forecasting awareness and skills.</p>	Head of Finance	30/09/16
2.	The Council's Constitution is currently based on the 2000 model and needs to be re-written. This will improve the Council's governance arrangements and will help to improve engagement with Members.	The Council's Constitution (including contract procedures) will be re-written in consultation with Members and senior officers.	Monitoring Officer	31/12/16
3.	Further development of the behaviours framework to match all of the organisation's values.	Re-establish skills/competencies for employees, especially managers, and training will be provided.	HR & OD Manager	31/03/17
4.	Procurement of agency staff	Formal tender action underway to establish local framework with other LA's (MSDC & CBC)	Commissioning & Performance Manager	31/03/17

5.	Improvement in Member training.	The Monitoring Officer will review and improve Member training providing a more structured approach to training and development.	Monitoring Officer	31/03/17
6.	Governance related training is needed for officers.	A programme of regular governance training will be developed (e.g. health & safety, anti-fraud, information and data security).	Director of Corporate Resources	31/03/17

Report to Accounts, Audit and Governance Committee

13th September 2016

By the Director of Corporate Resources

INFORMATION REPORT & DECISION REQUIRED

Not exempt



**Horsham
District
Council**

Treasury Management Activity and Prudential Indicators 2015/16 and request for revision of the 2016/17 Treasury Management Strategy

Executive Summary

This report covers treasury activity and prudential indicators for 2015/16. At 31 March 2016, the Council's external debt was £4m (£4m at 31/March/2015) and its investments totalled £31.8m (£24.6m at 31/March/2015) including call accounts and Money Market Funds.

During 2015/16 the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.288m (£0.161m in 2014/15) was earned on investments, an average return of 0.8% (0.5% in 2014/15). There was an instance when the single institution limit of £2.5m was breached; otherwise all limits and indicators were within estimates.

Due to the reduction in interest rates and growth in funds needing to be invested an increase in the limit on long term investments from £8m to £12m and an increase in the limit on pooled funds from £5m to £10m is being requested.

Recommendations

The Committee is recommended to:

- i) Note the Treasury Management stewardship report for 2015/16.
- ii) Note the actual prudential indicators for 2015/16.
- iii) Recommend that the Council agree that the 2016/17 Treasury Management Strategy be amended with an increase in the limit on long term investments from £8m to £12m and an increase in the limit on pooled funds other than Money Market Funds from £5m to £10m.

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 2015/16 in accordance with the requirements of the relevant CIPFA Codes of Practice.
- iii) External economic developments together with increase in the monies needing to be invested necessitate a revision to the current strategy.

Background Papers

“Treasury Management Strategy 2015/16” - AAG Committee 7th January 2015

“Budget 2015/16 and MTFs to 2018/19” - Council 25th February 2015

“Budget 2016/17 and MTFs to 2019/20” - Council 24th February 2016

“Outturn report for 2015/16” - AAG Committee 8th June 2016

Consultation: ArlingClose Ltd – the Council’s Treasury Management advisers

Wards affected: All

Contact: Julian Olszowka, Technical group accountant, extension 5310

Background Information

1 Introduction

- 1.1 This report covers treasury management activity and prudential indicators for 2015/16. It meets the requirements of the 2011 editions of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 1.2 In line with the CIPFA Prudential Code for Capital Finance in Local Authorities the Council adopts prudential indicators for each financial year and reports on performance relative to those indicators. This requirement is designed to demonstrate that capital spending is prudent, affordable and sustainable and that treasury practices are low risk. The original indicators for 2015/16 together with Treasury Management Strategy 2015/16 were agreed by Council on 25th February 2015 having been approved by this Committee on 7th January 2015.

2 The Council's Capital Expenditure and Financing 2015/16

- 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 24th February 2016 as a part of budget report.

2015/16	Actual £000	Estimate £000
Total capital expenditure	7,426	8,515
Resourced by:		
Capital receipts and third party contributions	(4,858)	(6,301)
Capital grants	(512)	(442)
Revenue reserves	0	(72)
Unfinanced capital expenditure (additional need to borrow)	2,056	1,700

- 2.2 The capital spend in 2015/16 was under the budget as revised in the 2016/17 budget report and well below the original programme which was just under £30m. The major variances have been reported to the last meeting of this Committee on 28th June 2016. The underspend resulted in a reduced need for financing when compared with estimates. However the unfinanced spend was higher than estimated as a capital programme item (Myrtle Lane Car Park) that was expected to slip into 2016/17 was completed in March 2016.

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 2015/16 MRP Policy (as required by DCLG Guidance) was approved by Council on 25th February 2015 as a part of the 2015/16 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 close to the estimate; the difference being the capital programme item expected to be slipped to 2016/17 mentioned above.

Capital Financing Requirement	Actual £000	Estimate £000
Opening balance 1 April 2015	11,986	11,986
plus unfinanced capital expenditure	2,056	1,700
less Minimum Revenue Provision	(787)	(786)
Closing balance 31 March 2016	13,255	12,900

4 Treasury position at 31 March 2016

- 4.1 Whilst the Council’s gauge of its underlying need to borrow is the CFR, the Director of Corporate Resources can manage the Council’s actual borrowing position by either borrowing to the level of the CFR or choosing to utilise other available funds instead, sometimes termed under-borrowing. The Council is under-borrowed as its only external debt amounts to only £4m.
- 4.2 Although the Council is under-borrowed relative to its CFR, it also holds investments and the summary treasury position on the 31 March 2016 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 2016		31 March 2015	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Rate Debt	4.0	3.4%	4.0	3.4%
Investments	(31.8)	0.9%	(24.6)	0.8%
Net borrowing position	(27.8)		(20.6)	

- 4.3 Returns continued at historically low levels during 2015/16 reflecting the continuing low interest rates being offered by counterparties who are a good credit risk. The current outlook points to further falls in rates with any increase further off than expected at the end of 2015/16.

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 2015/16 plus the expected CFR movement over 2016/17 and 2017/18. As external debt was £4m and the CFR remains around £13m and is not planned to decrease over the relevant future period the Council has complied with this prudential indicator.

5.2 The **Authorised Limit** is the “Affordable Borrowing Limit” required by section 3 of the Local Government Act 2003. The Council set the Authorised Limit at £15m for 2015/16. The table below demonstrates that during 2015/16 the Council has maintained gross borrowing within its Authorised Limit.

5.3 The **Operational Boundary** is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached. This indicator was set at £4m and gross borrowing was at £4m for the whole year.

5.4 **Actual financing costs as a proportion of net revenue stream** - This indicator shows the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. This is a gauge of the affordability of capital spend. As shown in the table below, the actual indicator was within the estimate.

	2015/16
Authorised Limit	£15.0m
Operational Boundary	£9.0m
Maximum gross borrowing position in the year	£4.0m
Minimum gross borrowing position in the year	£4.0m
Financing costs as a proportion of net revenue stream	Actual 4% Estimate 5%

5.5 **Upper limits on variable and fixed rate exposure** – These indicators identify maximum limits for variable and fixed interest rate exposures. The table below shows the actual maximums in 2015/16. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. The variable exposure is exclusively investments and thus appears as a negative figure as the indicator shows the net debt position.

	Limit	Actual	Met?
Upper limit on fixed rate exposure	£15m	£4m	✓
Upper limit on variable rate exposure	£0m	-£11m	✓

5.6 **Maturity structures of borrowing** - These gross limits are set to reduce the Council’s exposure to large fixed rate loans falling due for refinancing. As the Council only has one debt and has set the percentage range to allow it freedom to refinance the debt there is no danger of not meeting this indicator. The table below shows the 2015/16 estimates and end of year position.

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

- 5.7 **Total Principal Funds Invested over 364 days** – This limit ensures liquid funds are maintained. The actual position was within the indicator.

2015/16	Original Indicator	Actual Position
Maximum principal sums invested > 364 days	£8m	£6.5m

Economic and Treasury Management context for 2015/16

- 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 2015/16, is included as the appendix to this report.

Debt management activity during 2015/16

- 5.9 No new borrowing was undertaken so the Council's only debt was £4.0m from Public Works Loan Board borrowed on 23rd April 2009 for 10 years at 3.38%.
- 5.10 As the CFR shown above is over £13m the Council is using its internal resources in lieu of borrowing. This lowers overall treasury risk by reducing both external debt and temporary investments and was judged to be the best way of funding capital expenditure. Current borrowing costs are historically low (e.g. PWLB 50 year loan under 2%) and may decrease further.

6 Investment activity in 2015/16

- 6.1 The Council's objectives are to give priority to the security and liquidity of its funds before seeking the best rate of return. The majority of its surplus cash is therefore held as short-term investments with the UK Government, local authorities, and highly credit-rated banks, building societies and pooled funds. The Council's Treasury Management activity fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Treasury Management Code of Practice and the DCLG Investment guidance. These require the Council to approve an investment strategy before the start of each financial year and all investment activity during the year conformed to this strategy apart from breach of single institution limit detailed below.
- 6.2 The Council's longer term cash balances comprise revenue and capital reserves and its core cash resources are shown in the table below. The Council is borrowing internally to cover its CFR which reduces the funds to be invested by almost £10m.

Balance Sheet Resources	31 March 2016 £000	31 March 2015 £000
Revenue reserves	17,333	16,178
Other reserves and provisions	3,548	2,364
Usable capital receipts	5,756	0
Unapplied capital contributions	8,557	9,420
Working capital	5,734	4,775
Total	40,928	32,737

- 6.3 **Yield** - The investment income budget for the year 2015/16 was £0.249m (2014/15 £0.167m). The actual interest received was £0.288m (2014/15 £0.161m). It should be noted that the 2014/15 income figure was reduced as the Council invested just

under £5m in a non-distributing variable value Money Market Fund which did not contribute to interest income in 2014/15. Although during the year cash balances were considerably above budget, the returns available from 'good' quality counterparties remained very low for much longer than expected. An overall return of 0.8% (0.5% in 2014/15) was achieved; the benchmark, which is the average LIBID 7 day rate, was 0.45% (0.44% in 2014/15).

- 6.4 **Security** – A benchmark is used as a way of expressing the credit risk of the whole portfolio of counterparties that the Council invests with. The Council has adopted a benchmark of an equivalent credit rating of A- against which the portfolio was assessed at the end of each month. The portfolio average credit rating was one notch above the benchmark for five months (A) and two above it for seven months (A+).
- 6.5 **Liquidity benchmark** – The Council needs to ensure it has a sufficient level of liquidity so it has funds available when necessary. To ensure liquidity the Council maintained a bank overdraft facility of £0.5m and set a the benchmark of the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. For 2015/16 the benchmark amount was £3m. The actual funds available were far in excess of the benchmark for the whole year; the lowest amount available overnight was £4.3m with another £9.5m available within a week.
- 6.6 **Compliance with strategy** – There was an instance when the limits on single institution investments were breached. The circumstances are detailed below.
- 6.7 At the start of 2015/16, when under the terms of the new Treasury Management Strategy 2015/16, the Council's investment in unsecured banks was reduced from £5m to £2.5 million per institution. This was a change in the criteria and although it was applied to new investments initially it was not realised that an existing investment in a Svenska Handelsbanken call account was £3m and that it should have been reduced in April 2015 to £2.5m. The balance was reduced on 6th May 2015 and no loss was incurred by the Council. The breach of the limit was reported to the Director of Corporate Resources at the Treasury Management meeting on 14th May 2015 but was unfortunately not included in the mid-year report to this committee in January 2016.

7 Revision of Treasury Management Strategy 2016/17

- 7.1 In August 2016, the MPC reduced interest rates and increased QE in response to the perceived threat to the economy from Brexit. Further falls in rates and the injection of further liquidity into the finance sector have not been ruled out. The effect of this is to reduce the financial institutions taking investments and the rates being offered. As the Council traditionally invested a significant proportion of its funds (currently £42m) in deposits with maturity under a year the interest yield on a large portion of the Council's investments could be pushed under 0.5% by the end of this financial year. Indeed an early sign was seen on 19th August when Svenska Handelsbanken reduced its call account rate from 0.4% to 0.05% effectively prompting us to move our £1m balance.
- 7.2 Compounding the above is the growth of money that the Council has to invest. The actual funds at the moment are just over £50m which is £15m more than was projected nine months ago. This is due to delays in capital spend, revenue underspends, and large receipts of affordable housing section 106 contributions.

Although the larger capital spends are re-profiled into the future, the overall funds that the Council will have in the next two to five years are expected to be in the range £20m to £40m. Reserves are expected to remain in the order of £20m and continuing housing development is likely to lead to flows inwards of section 106 and CIL monies. These will flow outward in time but these timescales are determined by slow moving events which will give the Council time to plan its response.

- 7.3 The 2016/17 limit for long term investments is £8m and the current long term investments are just below £6m. Longer term investments bring greater yields. To give the Council better investment options, it is requested that the long term investment limit is increased to £12m. Counterparty criteria for longer term investments are higher so counterparty risk is still the primary concern.
- 7.4 The 2016/17 limit for pooled investments excluding Money Market Funds is £5m. The use of this type of investment was approved for the first time in the current 2016/17 year's strategy. They are longer term investments as their capital values are more volatile in the short term and in order to preserve the capital invested, it is advisable to hold the investments in the region of five years or more. At the moment the Council holds £5m of these investments which are yielding on average 4%. It is proposed to increase the limit on all pooled funds to £10m.
- 7.5 The added risks associated with the above two requests is that they exceed the cash available for longer term investments. Although all predictions of our cash position rest on assumptions that can be challenged; based on experience and current projections it is believed the level of reserves and other balances such as affordable housing section 106 balances will be of the order of £30m in the medium term.
- 7.6 The cash held by the Council does fluctuate over the year and if assumptions as to monies required meant there was a temporary shortfall, the cost of short term cash is very low and external advice is that it is expected to remain so for a number of years. For example there is currently short term cash on offer from other local authorities at about 0.2% and the Council's advisers expect the cash balances in the local authority sector to remain as many Councils are holding reserves with restricted investment options. The Council has traditionally held a large proportion of liquid and short term investment perhaps overestimating the risk of needing cash. This has not been a disadvantage as long as short term rates held up reasonably but the position now is swiftly changing and a re-examination of the level of liquidity is required for the prudent management of investments.
- 7.7 The strategy for 2017/18, effective April 2017, will be presented at the next meeting of this committee in January 2017 but the experience over the past few weeks has shown that the economic position can move swiftly and consequently treasury staff need to be prepared to alter investments as the economic picture changes in the remainder of 2016/17.

8 Next steps

- 8.1 If agreed by AAG, the amendments to the 2016/17 Treasury Management Strategy will be recommended to Council for approval on 19 October 2016.

9 View of the Policy Development Advisory Group and outcome of consultations

- 9.1 The Finance and Assets PDAG has not been consulted. The views of the Council's treasury management consultants, ArlingClose Ltd, have been incorporated in all aspects of the above.

10 Other Courses of Action Considered but Rejected

- 10.1 If no action is taken, the result would be a diminishing yield from the shorter term investments. Not doing anything has therefore been rejected in order to maximise our income.

11 Resources consequences

- 11.1 There are no staffing or financial resource implications as a result of this report.

12 Legal consequences

- 12.1 There are no legal consequences as a result of this report.

13 Risk assessment

- 13.1 There is an increase in risk when investing in pooled funds (equity and property based) as the capital values are more volatile and can go down as well as up. However, this risk is mitigated by holding these funds as longer term investments.

14 Other considerations

- 14.1 This proposal does not impact on Crime & Disorder; Human Rights; Equality & Diversity and Sustainability matters.

Appendix

Economic Background in 2015/16 Growth, Inflation and Employment: The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target.

The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global Influences: The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

UK Monetary Policy: The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its Inflation Reports and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction: From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty

surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

Current Economic Position: The above commentary covers 2015/16 prior to the British vote to leave the EU which sent shockwaves through the domestic, European and global economy. The long term effect of the vote is unclear; however the Bank of England sought to reassure markets and investors. In August the MPC reduced rates and increased QE judging the downside risks to growth greater than the upside risks to inflation from fall in the value of sterling. At the time of writing further falls in rates have not been ruled out and uncertainty around the economy is expected for a number of years as a British exit from the EU is negotiated and implemented.

Counterparty Update: The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. As a result of this the Authority made the decision to suspend Deutsche Bank as a counterparty for new unsecured investments. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy. National Australia Bank (NAB) announced its plans to divest Clydesdale Bank, its UK subsidiary. NAB listed Clydesdale on the London Stock Exchange and transferred ownership to NAB's shareholders. Following the demerger, Fitch and Moody's downgraded the long and short-term ratings of the bank.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish

Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

In September, Volkswagen was found to have been cheating emissions tests over several years in many of their diesel vehicles. The council's treasury advisor, Arlingclose Ltd, recommended suspending VW (as a non-financial corporate bond counterparty) for new investments. As issues surrounding the scandal continued, there were credit rating downgrades across the Volkswagen group by all of the ratings agencies. Volkswagen AG is now (as at 11/04/16) rated A3, BBB+ and BBB+ by Moody's, Fitch and S&P respectively. Volkswagen International Finance N.V is rated A3 and BBB+ by Moody's and Fitch respectively and Volkswagen Financial Services N.V. is now rated A1 by Moody's. Arlingclose continues to monitor the situation.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

In January 2016, Arlingclose supplemented its existing investment advice with a counterparty list of high quality bond issuers, including recommended cash and duration limits. As part of this, Bank Nederlandse Gemeeten was moved to the list of bond issuers from the unsecured bank lending list and assigned an increased recommended duration limit of 5 years. Interest rates are likely to stay low for longer and cash balances are increasing, making long-term bonds an increasingly attractive option. The Council did not make use of these long-term investment options during 2015/16 but they remain an option.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

Report to Accounts, Audit & Governance Committee

13th September 2016

By the Director of Corporate Resources

INFORMATION REPORT



**Horsham
District
Council**

Not Exempt

Risk Management ~ Quarterly Report

Executive Summary

This report includes an update on the Corporate Risk Register for consideration and provides an update on progress with the quarterly departmental risk register reviews.

Recommendations

That the Committee is recommended to:

- i) Note the contents of this report.

Reasons for Recommendations

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

Background Papers

Covalent Performance Management System / Departmental Risk Registers

Wards affected: All

Contact: Paul Miller, Chief Internal Auditor, 01403-215319

Background Information

1 Introduction and Background

- 1.1 The Accounts, Audit and Governance Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers (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 (approved by the Council's Senior Leadership Team on 7th December 2015) 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 (SLT) has reviewed the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix 1).

Two emerging risks have been added which relate to Cyber Risk (CRR18) and Brexit (CRR19).

- 3.2 Departmental Risk Registers

All departmental risk registers have been reviewed and updated with the exception of CenSus ICT. Following the recent departure of the Head of CenSus ICT and the imminent departure of the IT Security Manager, the CenSus ICT risk register will need to be comprehensively reviewed. In particular, responsibilities for the implementation of some of the control actions will need to be reassigned.

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 2 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.

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Corporate Risk Report September 2016 V2

Generated on: 30 August 2016

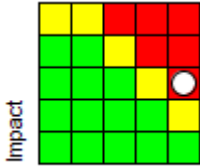

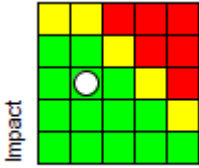


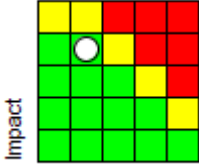


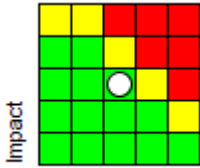

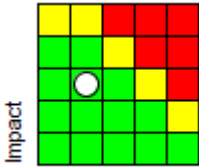





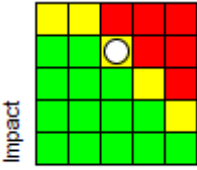
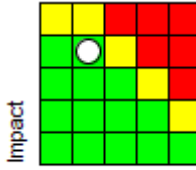
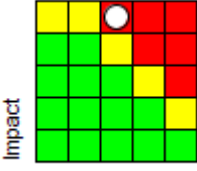
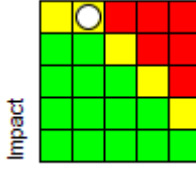
Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>Paper 13</p> <p>GRR01 Financial Source: The Council is reliant on Central Government funding (eg. New Homes Bonus). Event: Grant funding from Government is less generous than assumed in the MTFS.</p>	<ul style="list-style-type: none"> . Reductions in funding . Adverse effect on morale . Financial losses . Failure to achieve agreed objectives 	Jane Eaton		CRR.01.1 Review current budgets in preparation for the 2017/18 budget	Dominic Bradley			<p>September 2016 Update: The MTFS is being refined and detail added to the 'savings' plans which will generate more income, efficiencies and commissioning and transformation to help close the budget deficits that are forecast from 2017/18 through to 2019/20. These 'savings' are interlinked with the emerging Future Horsham programme which will be led by eight sub-programme sponsors. The budget setting process for 2017/18 has also started and will run in parallel, capturing the 2017/18 element into the annual budget. An updated MTFS, together with the savings plans, will be taken back to Council in the Autumn of 2016. The NHB consultation which closed in March 2016 indicated a reduction of NHB compared to present levels. When the outcome of the NHB consultation is known, the assumptions will be included in the MTFS.</p>
				CRR.01.2 Develop options to deal with pressure for consideration by Members	Dominic Bradley			
				CRR.01.3 Develop a Medium Term Plan	Dominic Bradley			

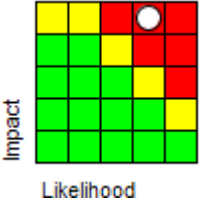

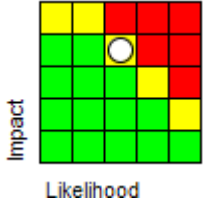

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR02 Managerial / Professional <u>Source:</u> The Council has a legal obligation to protect personal data. The Information Commissioner has the power to levy significant financial penalties up to £500k for data breaches. Some information held by the Council is politically / commercially sensitive, and it is important that such information is not leaked. <u>Event:</u> Major data breach or leak of sensitive information to a third party.</p>	<ul style="list-style-type: none"> . People and businesses come to harm and suffer loss that might not otherwise have occurred . Complaints / claims / litigation . Resources consumed in defending claims . Financial losses . Censure by regulators . Adverse publicity . Reputation damage 	Jane Eaton		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Jane Eaton			September 2016 Update: PSN accreditation has been achieved. An on-line data protection training solution is being investigated.
				CRR.02.2 Provide a programme of training on Information Security to all staff.	Jane Eaton			
				CRR.02.3 Annual PSN Accreditation	Jane Eaton			
<p>CRR03 Legal <u>Source:</u> The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses. <u>Event:</u> The Council is</p>	<ul style="list-style-type: none"> . People and businesses come to harm and suffer loss that might not otherwise have occurred . Complaints / claims / litigation . Resources consumed in defending claims . Financial losses . Censure by regulators . Reputation damaged 	Natalie Brahma-Pearl		CRR.03.1 Update corporate business continuity plan and regular review.	Trevor Beadle			September 2016 Update: CRR.03.1 Our warm site is currently undergoing an IT upgrade to suit the needs of the business and the plan will be reviewed once the upgrade is complete. In addition, recommendations and lessons learned from the Crowmarsh (South Oxfordshire) fire are being incorporated into the HDC BC plan to improve resilience. CRR.03.2 All departmental plans are due for review in September 2016 and every department will be audited to ensure full reviews are undertaken. All reviewed plans will be stored in
				CRR.03.2 Update departmental business continuity plans and regular review.	Trevor Beadle			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
fulfil its obligations under the Act in the event of a civil contingency.								'Resilience Direct' and made available to SLT.
<p>CRR05 Governance Source: Managers are responsible for ensuring that controls to mitigate risks are consistently applied.</p> <p>Event: Officers are either unaware of expected controls or do not comply with control procedures.</p>	<ul style="list-style-type: none"> . Failure of business objectives . Health & Safety . Financial . Service Delivery . Compliance with Regulations . Personal Privacy Infringement . Reputation damage 	Jane Eaton		CRR.05.1 Officer training	Jane Eaton			<p>September 2016 Update: Assurance statements issued and signed this summer.</p>
				CRR.05.2 Raise the profile of risk and control by incorporating them into the performance management framework (e.g. integrate into appraisal process).	Jane Eaton			
				CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually).	Jane Eaton			
<p>CRR06 Physical Source: The Council is responsible for the health & safety of its clients, staff and other</p>	<ul style="list-style-type: none"> . People come to harm . Complaints/claims/ 			CRR.06.1 Set up a Health & Safety Forum with clear terms of reference (by 30/11/15).	Robert Laban			<p>September 2016 Update:</p> <p>CRR06.2 - The Corporate H&S Adviser is continuing a programme of inspections; the introduction of Premises Coordinators (PCs) at all sites has been agreed and 100% of localities have been assigned. A pilot log for PCs has been developed and is being tested - training of PCs started in June 2016. Estimated completion date 30/11/16.</p> <p>CRR 06.3 - This is continuing; H&S responsibilities have been set out, generically, in the Corporate H&S Policy; more specific responsibilities are being set out as each</p>
				CRR.06.2 Develop and implement a corporate inspection strategy (By 30/06/16).	Robert Laban / Health & Safety Officer			
				CRR.06.3 Clarity of responsibilities and implementation of a training programme	Robert Laban			
				CRR.06.4 Implement a central repository for risk assessments (by 30/06/16).	Robert Laban / Health & Safety Officer			

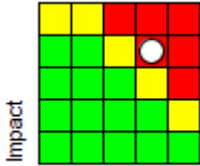

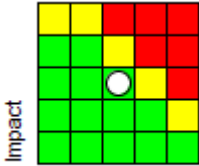


Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
								<p>existing H&S subject policy is reviewed and as an additional suite of H&S subject policies is introduced; the reviews and introductions are now 50% complete. The Corporate Health & Safety Adviser has drafted a H&S training matrix, and developed e-learning modules on statutory training and induction. Work is ongoing with the L&D Adviser to fit this into a wider programme and pilot/ roll out on the council's e-learning system, LEON.</p> <p>CRR 06.4 –This action is slipping and new target date is 30/09/16. Still working with IT on an electronic solution. If this is not forthcoming, consideration will be given to placing documents on the Horsham Manager website.</p>
<p>CRR07 Managerial / Professional <u>Source:</u> There is a lack of corporate consistency in terms of the way in which contracts are managed, and contract management is inadequate in some areas. <u>Event:</u> Failure of contract / poor service delivery / failure to achieve VFM.</p>	<ul style="list-style-type: none"> . Failure of business objectives . Financial . Service delivery . Compliance with regulations . Personal Privacy Infringement . Reputation damage 	Jane Eaton		CRR.07.1 Specific contract management guidelines will be developed. (By 31/10/16).	Mark Pritchard	▶		<p><u>September 2016 Update:</u> Contract Management guidance is nearing completion. Target completion date has been extended to 31/10/16.</p>
				CRR.07.2 A contract management training programme will be designed and implemented. (By 31/10/16).	Mark Pritchard	▶		

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR08 Governance <u>Source:</u> The Council's decision-making processes are based on a Constitution that is overly bureaucratic and unnecessarily complicated</p> <p><u>Event:</u> Non-compliance with the Constitution and delays in decision-making</p>	<ul style="list-style-type: none"> Opportunities lost Complaints / claims / litigation Financial losses Lack of openness and transparency 	Paul Cummins		CRR.08.1 The Council's Constitution will be updated using the 2011 template. (By December 2016).	Paul Cummins			<p><u>September 2016 Update:</u> The Constitutional Review Group has now met several times and work is well underway to fully review and modernise the Council's Constitution. There are plans to report the revised Constitution to Council in October.</p>
<p>CRR09 Governance <u>Source:</u> The Council's decision-making relies upon the taking of professional advice from officers or external consultants</p> <p><u>Event:</u> Advice is not taken.</p>	<ul style="list-style-type: none"> Poor/ultra vires decisions Complaints/claims/litigation Financial losses Reputation damage 	Tom Crowley		CRR.09.1 Member training (ongoing)	Paul Cummins			<p><u>September 2016 Update:</u> Further training is going to be undertaken over the next quarter.</p>
				CRR.09.2 Officer training (ongoing)	Paul Cummins			
				CRR.09.3 Member briefings to improve communications	Paul Cummins			
<p>CRR12 Partnership / Supplier / Contractual <u>Source:</u> The Council is subject to EU procurement rules and regulations, is putting more services out to tender, and contractors are increasingly challenging contract awards.</p> <p><u>Event:</u> A contractor successfully challenges an award (eg on inflexible price:quality ratios).</p>	<ul style="list-style-type: none"> Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale 	Jane Eaton		CRR.12.1 Staff training	Mark Pritchard / Roger Dennis			<p><u>September 2016 Update:</u> The Procurement Toolkit will be finalised at the end of November, once the amendments to the Constitution have been approved.</p>
				CRR.12.2 Up-to-date procedures (by 30/11/16).	Mark Pritchard / Roger Dennis			
				CRR.12.3 Reference to Procurement Team for advice	Mark Pritchard / Roger Dennis			
				CRR.12.4 Proactive monitoring by the Procurement Team	Mark Pritchard / Roger Dennis			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR13 Governance <u>Source:</u> Decisions are not always based on data. <u>Event:</u> Wrong decision made.	. Missed opportunities . Poor decisions . Poor VFM . Increased costs / financial losses	Tom Crowley		CRR.13.1 Robust evaluation of business cases to inform decisions (ongoing)	SLT	▶		<u>September 2016 Update:</u> The Senior Leadership Team will continue to review the quality of business cases.
				CRR.13.2 Ensure that decisions are properly documented (Ongoing)	SLT	▶		
Page 136 CRR14 Customer/Citizen <u>Source:</u> The negotiation of Section 106 and CIL (Community Infrastructure Levy) are essential for ensuring outcomes for residents. <u>Event:</u> Failure to negotiate the optimum outcome.	Reduced funding to deliver outcomes for the community	Chris Lyons		CRR.14.1 Ensure that leisure priorities are understood within the CIL schedule process and keep under review	Trevor Beadle	▶		<u>September 2016 Update:</u> Comments were received on the Draft CIL Charging Schedule and Planning Obligations & Affordable Housing SPD which have resulted in some changes being proposed although the rate and amount of CIL generated would remain unchanged. The principal of the proposed changes are being reported to Cabinet on 22 September for approval so that detailed Proposed Modifications can be worked up and be subject to targeted public consultation before submission of the Draft Charging Schedule, Proposed Modifications (and any comments on the Proposed Modifications) for examination by an independent Examiner. The Examination will take place directly following the consultation on the Proposed Modifications. <u>Revised CIL Preparation Timetable:</u>
				CRR.14.2 Identify the impact of funding erosion with competing partners e.g. WSCC	Barbara Childs	▶		
				CRR.14.3 Update the Planning Obligations SPD (Supplementary Planning Document) and CIL charging schedule.	Barbara Childs	▶		

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
								Submission – November 2016. Examination (Inspector appointed – Geoff Salter) – November/December 2016 Adoption – January/February 2017.
CRR17 <u>Source:</u> The External Auditors audit the HDC Benefits Grant Subsidy return to the Department for Work and Pensions (DWP) on an annual basis to identify errors. Targeted sample testing is undertaken to ensure that housing benefit claims have been correctly administered, and extended sample testing is carried out should errors be identified. The amount of the error is then extrapolated across the entire population (for that particular cell) to produce an estimate of the total error amount. Where errors are identified, the Subsidy Claim may be qualified, and financial penalties may occur. It is important to note that the Administration of Housing Benefit is undertaken by the CenSus Partnership and Benefits staff are employed by Mid-Sussex.	Financial Service Delivery Compliance with regulations Reputation	Jane Eaton		CRR.17.1 Increase / improve the level of quality control checking.	Tim Delany			September 2016 Update: Specialist consultant in place reviewing the future of CenSus and the benefits subsidy issues. Reporting in autumn 2016 means any underlying problems could run into the 2016/17 year.
			CRR.17.2 Continued implementation of the Census Quality Plan which came out of the 2013/14 audit.	Tim Delany				

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p><u>Event:</u> Errors may be made which are not identified by quality control checking. This may result in the Benefit Subsidy claim being qualified and/or financial losses.</p>								
<p>CRR 18 Technological <u>Source:</u> Council services are increasingly reliant on ICT systems at a time when there are greater opportunities for malicious attackers to exploit security weaknesses.</p> <p><u>Event 1:</u> A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.</p> <p><u>Event 2:</u> An internal attack on ICT systems by a disgruntled employee or other trusted user.</p>	<ul style="list-style-type: none"> . Loss of key systems resulting in disruption to Council services. . Cost of investigation and recovery of systems. . Fraud/theft. . Loss of the integrity of Council Records. . Exposure of sensitive/personal data resulting in penalties from the ICO. . Reputational or political damage from adverse media coverage. 	Jane Eaton		CRR.18.1 Staff Training	Tony Corbett / Robert Laban			September 2016 update: New risk
				CRR.18.2 Awareness of current threats	Tony Corbett			
				CRR.18.3 An effective ICT Service delivery team	Tony Corbett			
				CRR.18.4 Effective patching and updates to mitigate known vulnerabilities	Tony Corbett			
				CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)	Tony Corbett			
				CRR.18.6 Effective policies in place which outline security requirements for users of ICT	Tony Corbett			
				CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems	Tony Corbett			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR19 <u>Source:</u> The Brexit vote has caused some uncertainty in the UK economy. The Government has spoken about an additional 5% reduction in local government funding, and in years to come, there may be a further deterioration in the local government pension fund. There is a risk that EU Law will not be complied with during the interim period..</p> <p><u>Event:</u> The impact on the financial markets and the pound could bring forward the next recession and cause a slowdown in the housing market. This may result in a reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims.</p>	Financial Service Delivery Compliance with Regulations			CRR19.1 MTFS is being designed with £1m headroom being built in.	Jane Eaton			<p>September 2016 Update: Headroom in the MTFS is unlikely to be as high as originally envisaged. Internal indicators not showing any worrying signs at present.</p>
				CRR19.2 Monitor the external environment	SLT			
				CRR19.3 Monitor internal indicators, particularly income generation	SLT			

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Report to Accounts, Audit & Governance Committee

13th September 2016

By the Chief Internal Auditor



Horsham
District
Council

INFORMATION REPORT

Not Exempt

Internal Audit – Quarterly Update Report

Executive Summary

This report summarises the work completed by the Internal Audit Section since September 2016.

Recommendations

The Committee is recommended to:

- i) Note the summary of audit and project work undertaken since June 2016.

Reasons for Recommendations

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

Background Papers

Internal Audit Reports and Correspondence

Wards affected: All.

Contact: Paul Miller, Chief Internal Auditor, 01403-215319

Background Information

1 Introduction and Background

- 1.1 The purpose of this report is to provide a quarterly summary of work undertaken by the Internal Audit Team since June 2016.
- 1.2 The Accounts and Audit (England) Regulations 2011 state that “a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.” This responsibility is discharged through the Council’s Internal Audit Section.

2 Relevant Policy / Professional Standards

- 2.1 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.
- 2.2 Internal Audit is conducted in accordance with the Council’s Constitution. Financial Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the work of internal audit, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment.

3 Summary of Audit Findings

3.1 Building Control Partnership ~ Cost Sharing Arrangements

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

The terms of the Building Control Partnership are clearly set out in a Partnership Agreement which is monitored at regular meetings of the Partnership Board. Detailed financial statements are provided at each meeting of the Partnership Board in which the costs and income are analysed in accordance with the terms of the Agreement.

3.2 Private Sector Housing Assistance Grants

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

There is a sound system of control in place for the administration and processing of Private Sector Housing Assistance Grants. The process was found to be satisfactory, although it has been agreed that documented procedures need to be updated.

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

(↑) = Improved.

(↔) = No change.

(↓) = Reduced.

If blank ~ No previous opinion

3.3 Recruitment

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↔)

Controls over the recruitment process are generally working effectively, although audit testing identified a few areas where improvements are needed. In particular, procedural guidance for managers on the Council's Intranet will be reviewed and updated where necessary covering all areas of risk.

3.4 Security ~ Parkside

OVERALL AUDIT OPINION: LIMITED ASSURANCE

Following the office move, a review of security has been undertaken at Parkside to assess the adequacy of physical security for the protection of the Council's assets and data.

The Parkside building has a 24 hour security presence, and a "Clear Desk Policy" has been implemented to help ensure that valuable items are securely locked away at the end of the working day.

However, a number of control weaknesses have been identified which is exposing the Council to unnecessary risk. Appropriate remedial actions have been agreed to improve the current security arrangements.

4. Other Audit Work

4.1 The Internal Audit team has been involved in a number of other areas:

- The Chief Internal Auditor has been leading on the Internal Audit work stream for joining up Internal Audit services with Arun D.C. and Chichester D.C. An outline business case has been completed which has been approved by each of the Council's Cabinets, and an independent project manager has now been appointed to develop this further into a 'full' business case. The resource implications of this piece of work were significantly underestimated, and therefore the time allocation estimated in the audit plan for 2016/17 has been exceeded. However, this was an important piece of work as the outcomes of the review will impact on the future provision of the audit service.
- Internal Audit has also had involvement in a number of areas which are listed below:
 - Data matching has been undertaken on behalf of Saxon Weald Homes using our audit interrogation software.
 - Disabled Facilities Capital Grant Certification audit undertaken on behalf of Central Government.
 - Bribery procedures have been written to support the Council's Anti-Fraud and Corruption Policy.
 - Independent review of a new supplier e-form.
 - Independent review of new E-bay process.

5. Audit Plan ~ Progress Update

- 5.1 The audit plan is progressing well (see Appendix 2 for current status). However, the 'Shared Services' project (with Arun D.C and Chichester D.C) has had a significant impact on resources in recent months, and as a consequence, some elements of the audit plan may not be achieved.

It is important to note that the number of audit days currently provided will be examined during the next few months as part of the shared service review of Internal Audit. It is anticipated that the number of audit days available will diminish in future years. It is imperative that there are sufficient audit days in the plan to enable the Chief Internal Auditor to provide an overall annual opinion on the Council's governance, risk management and control environment.

The annual audit plan will continue to be compiled using a risk based approach. However, it should be noted that if the number of actual audit days for 2017/18 is significantly reduced, audits scheduled for 2016/17 which are not undertaken will not be automatically carried forward to 2017/18.

6 Next Steps

- 6.1 The Committee will be kept informed about progress in terms of the audit plan and the outcomes of the Shared Services project.

7 Outcome of Consultations

- 7.1 Service managers are consulted during each audit. At the end of each review, audit findings and recommendations are discussed with the service manager 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.

8 Other Courses of Action Considered but Rejected

- 8.1 Not applicable.

9 Resource Consequences

- 9.1 This report summarises information about the work undertaken by Internal Audit, and therefore there are no direct financial or HR consequences.

10 Legal Consequences

- 10.1 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.

11 Risk Assessment

- 11.1 All internal audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported

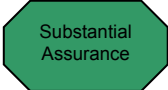
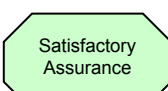

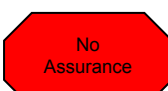
and informs the overall audit assurance opinion. See Appendix 1 for audit report assurance definitions.

12 Other Considerations

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

Appendix 1

SUMMARY OF INTERNAL AUDIT ASSURANCE OPINIONS

 <p>Substantial Assurance</p>	<p><u>System of Control:</u> There is a sound system of control in place which minimises risk to the Council; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified that expected controls are being consistently applied. Only a few errors or weaknesses were identified, but the implementation priority is considered to be of low importance.</p>
 <p>Satisfactory Assurance</p>	<p><u>System of Control:</u> Whilst there is an adequate system of control and all key controls are in place, there are some weaknesses which may place the Council at risk in a few areas; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified a lack of compliance with controls in a few areas.</p>
 <p>Limited Assurance</p>	<p><u>System of Control:</u> There are several weaknesses in the system of control and / or the absence of one or more key controls, which is placing the Council at risk in a number of areas; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified a lack of compliance with several controls and/or one or more key controls and/or potential risk of abuse.</p>
 <p>No Assurance</p>	<p><u>System of Control:</u> The system of control is generally weak leaving the system open to significant error or abuse; and/or</p> <p><u>Compliance with Controls:</u> Significant non-compliance with basic control processes leaves the processes / systems open to significant error or abuse.</p>

APPENDIX 2

= Current Status

ANNUAL AUDIT PLAN 2016/17 ~ PROGRESS UPDATE

STATUS UPDATE

<i>Annual Audits ~ Key Financial Systems</i>		<i>Commenced</i>	<i>Draft Report Stage</i>	<i>Completed</i>
1	Ernst & Young Key Financial Controls (ISA)			
2	Asset Management (IT Asset Inventory)			
3	Housing Benefits (CenSus Partnership)			
4	Cash & Bank			
5	Creditors			
6	Debtors			
7	Payroll			
8	Treasury Management			

Annual Audits ~ Other

9	BACS			
10	Business Continuity			
11	Contracts			
12	IT / Data Governance			
13	Computer Audit ~ Release & Change Management			
14	Computer Audit ~ Software License Management			
15	Computer Audit ~ PCI DSS (Payment Card Industry Data Security Standards)			
16	Computer Audit ~ New Finance System			
17	Ethics, Values & Behaviours			
18	Risk Management Assurance			
19	Purchase Cards			

4 Year Cycle

20	Budgetary Control			
21	Building Maintenance & Facilities Management			
22	Car Parking Enforcement (CPE)			
23	Communications (to include Marketing)			
24	Use of Consultants			
25	Customer Service / Complaints Management			
26	Depots ~ Bulky Waste			
27	Depots ~ Trade Waste			
28	Events Management			
29	Emergency Planning			
30	Grants ~ Private Sector Housing Assistance Grants			
31	Building Control ~ Cost Sharing Arrangements			
32	Project Management ~ Audit of BBHLC Project Governance Arrangements			
33	Recruitment			
34	Security			

Other Work

Corporate Governance ~ Update Code of Corporate Governance			
Corporate Governance ~ Coordinate completion of the Annual Governance Statement			
National Fraud Initiative (NFI) Data Matching (Coordinate Uploads)			
National Fraud Initiative (NFI) Data Matching (Review Reports)			
Consultancy ~ Parks & Open Spaces / Grounds Maintenance Contract			
Consultancy ~ IT Software (to assist Future Horsham Project)			
PSIAS (External) Review ~ Rother			
PSIAS (External) Review ~ Hastings			
Assurance Framework ~ Pilot within Finance			

Unscheduled Work

	<i>In Progress</i>	<i>Completed</i>
Shared Services ~ Outline Business Case		
Data Matching on behalf of Saxon Weald Homes		
Bribery Procedures written		
Disabled Facilities Capital Grant Certification for Central Government		
Review of proposed new Supplier e-form		
Review of new E-Bay procedure		
Development of a formal Risk Management Process for Projects		

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