Public Document Pack

Email: committeeservices@horsham.gov.uk
Direct line: 01403 215465

Audit Committee

Wednesday, 7th December, 2022 at 5.30 pm
Conference Room, Parkside, Chart Way, Horsham

Councillors: Stuart Ritchie (Chairman)
John Blackall (Vice-Chairman)
Matthew Allen
Martin Boffey
Paul Clarke
Richard Landeryou
Gordon Lindsay

You are summoned to the meeting to transact the following business

Jane Eaton
Chief Executive

Agenda

Audit Committee
21 SEPTEMBER 2022

Present: Councillors: Stuart Ritchie (Chairman), John Blackall (Vice-Chairman), Martin Boffey and Paul Clarke

Apologies: Councillors: Matthew Allen, Richard Landeryou and Gordon Lindsay

AAG/16 MINUTES

The minutes of the meeting held on 29 June 2022 were approved as a correct record and signed by the Chairman.

AAG/17 DECLARATIONS OF MEMBERS' INTERESTS

There were no declarations of interest.

AAG/18 ANNOUNCEMENTS

The Chairman announced that at the meeting of Audit Committee held in December 2021 the decision was made to find an external Auditor outside of the Public Sector Audit Appointments (PSAA). One firm had applied and then withdrew their interest. This means that Horsham will seek a way back into the 'appointing person' national auditor appointment arrangements established by the PSAA for five financial years from 1 April 2023.

AAG/19 RISK MANAGEMENT - QUARTERLY UPDATE

The Interim Director of Resources presented the Risk Management Quarterly Update to the Committee. The report included an update on the Corporate Risk Register for consideration and provided an update on progress with the quarterly departmental risk register reviews.

It was reported that there was an emerging risk regarding retention and recruitment of staff that may appear in future reports.

Members asked for clarification on the risk CRR03, the obligations the Council would have under the Civil Contingencies Act, and what mechanisms were in place to ensure these obligations were upheld.

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.

It was reported that there were four risks considered to be high and eight medium risks. The high risk areas were:

CRR37 - Delay to the local plan preparation due to the requirement of the plan to demonstrate water neutrality, or as a result of significant / unexpected changes to government guidance.

CRR01b - Funding from Government is less generous than assumed in the Medium- Term Financial Strategy (MTFS) from 2023

CRR18 - (i) A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.

(ii) IT not working due to environmental problems: fire, flood, power cut.

CRR19 - Rapidly rising costs from inflation together with ongoing lower levels of income from fees in some areas, and other cost pressures such as increased homelessness; and increased housing benefit claims.

All 19 Departmental risk registers had been reviewed and updated.

The Committee noted the contents of the report and appendix.

AAG/20 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Chief Internal Auditor provided a progress report of internal audits carried out during Q1 of 2022/23

Three formal audits were finalised during the quarter (one relating to the 2021/22 audit plan, and two relating to the current financial year). Two of the audits received an opinion of 'reasonable assurance', and the other, an opinion of "substantial assurance".

Formal follow up reviews would continue to be carried out for all audits where 'minimal assurance' opinions had been given and for higher risk areas receiving 'partial assurance'.

The Committee noted the contents of the report.

AAG/21 **COUNTER FRAUD STRATEGY AND FRAMEWORK**

The Interim Director of Resources and the Chief Internal Auditor reported that the revised Counter Fraud Strategy was aligned to 'Fighting Fraud & Corruption Locally' (FFCL), the Local Government Counter Fraud and Corruption Strategy for the 2020s, which provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities.

The FFCL strategy 2020 has been expanded to include two additional areas of activity that underpin tenets of those pillars; ‘govern’ and ‘protect’.

‘Protect’ was a new overarching responsibility to protect the public from fraud. ‘Govern’ was added as a new foundation of the Strategy, which set out that those who are charged with governance, support the activity by ensuring that there are robust arrangements in place and that executive support exists to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.

The amendments made to the Horsham DC Strategy included the following:

- Aligning the pillars of the strategy to FFCL (addition of Govern and Protect).
- An updated table summarising the activities required to achieve the strategic objective included within the Strategy document under the heading ‘Action Plan’.
- An introductory statement reinforcing leadership support for counter fraud measures (in line with FFCL).

RESOLVED

That the committee endorse the revised Counter Fraud Strategy and Framework.

AAG/22 **URGENT BUSINESS**

There was no urgent business.

The meeting closed at 6.23 pm having commenced at 5.30 pm

CHAIRMAN

This page is intentionally left blank

Horsham District Council
Draft Audit Results Report

Year ended 31 March 2022

December 2022

December 2022

Horsham District Council
Chart Way
Horsham
RH12 1RL

Dear Audit Committee Members

We are pleased to attach our draft Audit Results Report for the forthcoming meeting of the Audit Committee, summarising the status of our audit and findings to date. We will update the Audit Committee at its meeting scheduled for 7 December 2022 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 21/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Horsham District Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 7 December 2022.

Elizabeth Jackson
Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).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 and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Horsham District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Horsham District Council those matters we are required to state to them in this report and for no other purpose. To the **fullest** extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Horsham District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 29 April 2022 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Below we have highlighted the changes to that scope:

Changes in materiality

We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.45m (Audit Planning Report – £1.50m). This results in updated performance materiality, at 75% of overall materiality, of £1.07m, and an updated threshold for reporting uncorrected misstatements of £71,225.

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

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

Page 11

Status of the audit

Our audit of Horsham District Council for the year ended 31 March 2022 is in progress at the time of writing this report. We will provide an update on the status of the audit at the 7 December meeting. Until work is complete, further amendments may arise:

- Completion of work across a number of low risk areas;
- Conclusion of EYRE review into a sample of investment property valuation;
- Final manager and engagement partner review of the file;
- Completion of subsequent events review;
- Review of final version Statement of Accounts;
- Receipt of the response from Those Charged with Governance; and
- Receipt of the signed management representation letter.

Audit differences

In the work completed to date, we have identified one unadjusted difference on the pension fund asset. Full details are available in section 4.

At the time of writing this report we have not identified any unadjusted misstatements.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
  How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit – Value for Money

We have completed our value for money (VFM) risk assessment and not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have revisited our assessment as part of our completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. This risk assessment will remain in progress until we are in a position to the sign the audit report and will report any risks identified to you.

At this stage of the audit and as a result of the work completed for our planned VFM procedures, we have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report within 3 months of issuing the audit report.

Executive Summary

Other reporting issues

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

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee following completion of this work. We have not yet received the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. We will work with the Council once this is received to conclude this work.

We have no other matters to report.

Areas of audit focus

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

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

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

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

Control observations

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

However, we have identified one deficiency in the Council's ability to obtain information in relation to some of its investment properties to support the valuation. See Section 07 for further details.

Independence

We have no issues to report.

Please refer to Section 08 for our update on Independence.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error *

What is the risk?

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

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

What judgements are we focused on?

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

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

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

What did we do?

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

What are our conclusions?

Our work in relation to this risk is ongoing at the time of writing this report. To date:

Our audit work found no evidence that management had attempted to override internal controls.

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

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

This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.

Significant Risk

Areas of Audit Focus

Significant risk

Further details on procedures/work performed

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

We have:

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

- Performed mandatory procedures regardless of specifically identified fraud risks, including:
- Reviewed the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of the financial statements.
- Reviewed, discussed with management and challenged any accounting estimates on revenue or expenditure recognition for evidence of bias, specifically:
    - IAS 19 disclosures;
    - NDR appeals provision; and
    - Valuation of land and buildings in Property, Plant and Equipment and Investment Properties.

  We found that the valuation method for each of the above has not changed from prior years.
- Reviewed the transactions in the financial statements for evidence of any significant unusual transactions.

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

Significant risk

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

What is the risk?

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

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

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

What did we do?

Our approach focused on:

► For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support the additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16

► We extended our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold

► Journal testing – we used our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

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

Significant Risk

Significant risk

Valuation of Property, including investment property

What is the risk?

The Council holds a significant investment in retail property. The valuation of property is complex and subject to several assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

Difficulties in the retails sector have led to many retailers, including well-known names, closing stores, going into administration, or otherwise looking to reduce their rental costs by renegotiating existing leases.

These difficulties have had a direct impact on the value of the retail units (high street shops, out of town retail parks and shopping centres) leased to retailers.

What did we do?

We have:

- Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- instructed our own Property valuation team (EY Real Estates) to review a sample of property valuations performed by the Councils Valuer
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements;

What are our conclusions?

We are yet to conclude our work in this area. The work of our specialist (EY Real Estates) remains ongoing and we have had a number of meetings with the Council's valuer and officers to discuss the valuation of two investment properties selected for testing. We have not been able to obtain sufficient information to date about the valuation inputs of these assets.

For one of the assets, Swan Walk, the valuation was not updated for 2021/22 due to the timing of information provided by the management agent. This valuation is currently being reassessed by the Council's valuer and an amendment may be needed to the Accounts before the audit report can be issued.

We will provide a verbal update at the committee meeting as to the latest position.

Significant Risk

Other risk

Pension asset valuation

What is the risk?

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

The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. At 31 March 2022 this totalled £31,006k.
The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

We have:

- Liaised with the auditors of West Sussex Pension Fund to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council.
- Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and
- Reviewed the Council's calculation of the impact of the 'McCloud' and 'Goodwin' judgement noting that the post balance sheet events did not have a material impact on the pension liability and therefore are not required to be disclosed as post balance sheet event.

What are our conclusions?

We identified that the pension asset value at 31 March 2022 used by the actuary in their report was overstated by £280k. Management has agreed to amend the accounts for this misstatement.

As this amount was not material, we have concluded that the net pension asset was fairly stated.

Other risk

Accounting for Covid business grants

What is the risk?

Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.

Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2021/22 statements. The Council needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2021/22.

What did we do?

We have:

- Reviewed the Council's decision for new grant or funding arrangements whether it is acting as principal or agent;
- Reviewed whether any initial conditions are attached to grants impacting their recognition;
- Assessed whether the accounting appropriately follows those judgements; and
- Checked the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

What are our conclusions?

We are satisfied that officers have appropriately accounted for and disclosed Covid Business grants received in year.

03 Audit Report

Draft audit report - example only

Note this is an illustrative draft of the audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of Horsham District Council for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- and the related notes 1 to 32.
- 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 2021/22.

In our opinion the financial statements:

- give a true and fair view of the financial position of Horsham District Council as at 31 March 2022 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 2021/22.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that Director of Corporate Resource's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Corporate Resource with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts for the Financial Year 2021/22, other than the financial statements and our auditor's report thereon. The Director of Corporate Resources is responsible for the other information.

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

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

We have nothing to report in this regard.

Draft audit report - example only

Our opinion on 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 Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022

We have nothing to report in these respects.

Responsibility of the Director of Corporate Resources

As explained more fully in the Statement of the Director of Corporate Resources Responsibilities set out on page 9, the Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

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

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

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:

- Local Government Act 1972,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,

Draft audit report - example only

Our opinion on the financial statements

- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948)
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Horsham District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of employee handbooks and other information.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise.

Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure, Risk of fraud in revenue recognition – sales, fees and charges income grant and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of fraud in revenue recognition – sales, fees and charges income grant we assessed whether the grant return appropriately followed the guidance, and whether the values included in the return were supported by relevant and appropriate evidence .

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether Horsham District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Horsham District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

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 Horsham District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Draft audit report - example only

Our opinion on the financial statements

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.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

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

Elizabeth Jackson (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Luton

Date

04 Audit Differences

Audit Differences

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

Summary of adjusted differences

We report to you any misstatements greater than our nominal value of £73,000.

We identified that the pension asset value at 31 March 2022 used by the actuary in their report was overstated. The effect of this was to decrease the pension asset by £280k. We have no other corrected misstatements to report to you at the date of this report.

There are no uncorrected misstatements to bring to your attention at the date of this report.

05 Value for Money Risks

Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

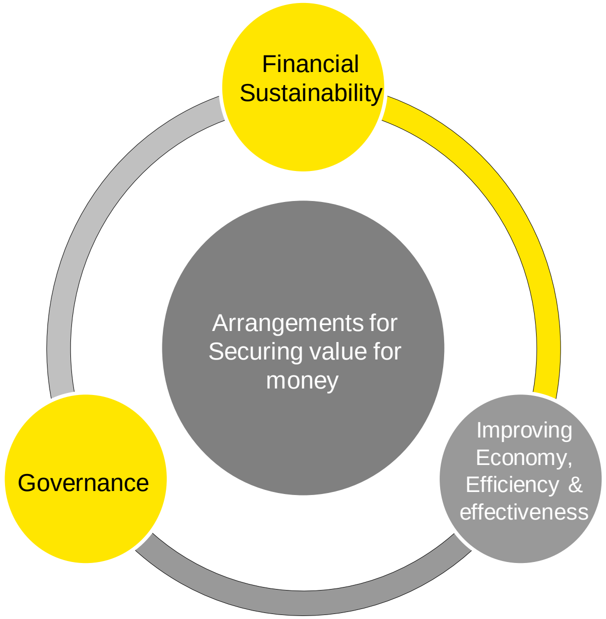
We have previously reported to the Committee the outcome of our assessment of the risk of significant weaknesses in the Council's VFM arrangements - that we had not identified any risks. We have revisited our risk assessment and have not identified any new risks for 2021/22.

The risk assessment will remain in progress until we are in a position to the sign the audit report and will report any new risks identified to you.

Status of our VFM work

We have completed our planned VFM procedures at the date of drafting this report and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report within three months of issuing the audit report.



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2021/22 with the audited financial statements.

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

Financial information in the Narrative Statement in the Statement of Accounts 2021/22 and published with the financial statements was consistent with the audited financial statements.

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

Whole of Government Accounts

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

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee following completion of this work. Currently, the issue of the template submission by HM Treasury has been delayed and we do not know when this, or the guidance, will be issued. The audit certificate will be issued once this work is complete.

Other powers and duties

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

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

Other matters

We have no other matters to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

Under ISA (UK&I) 265 it is mandatory to communicate significant deficiencies in internal control in writing to any audit client.

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

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

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

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

However, we would like to bring an internal control deficiency to your attention:

- Access to information held by management agents of the Council's investment properties – the Council needs to ensure that it has access to all information in a timely manner from the management agents of its investment properties. The difficulty in obtaining information has led to a likely misstatement in the valuation of one of the investment properties as at 31 March 2022. Due to the complexities of valuing this type of asset, the Council should review its access to information and strengthen arrangements with the management agents to ensure the draft accounts are based on the most up to date information. The valuation of these assets requires the valuation inputs to be verified to source data and we are not currently able to do this as we have been unable to obtain tenancy agreements and lettings information. We do however note the Council is a minority stakeholder in this arrangement, holding 15.5% of the investment, which increases the difficulty of holding the management company accountable for supplying the required information.

08 Independence

Confirmation and analysis of Audit fees

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

There are no relationships from 01 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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

We confirm that we have not undertaken non-audit work.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2022.

	Planned fee 2021/22	Scale fee 2021/22	Final Fee 2020/21
	£	£	£
Total Fee – Code work	38,572	38,572	38,572
Additional fee determined by PSAA (1)	TBC	-	24,460
Total audit fee	TBC	38,572	63,032

Note:

1) As detailed in our 2020/21 Auditor's Annual Report we submitted a proposed rebasing of the scale fee. PSAA have now determined this fee for 2020/21. We will be submitting scale fee rebasing for 2021/22 following the conclusion of the audit. We requested an additional fee of £38,200 and PSAA determined that £24,460 could be invoiced in relation to this.

We will determine an additional fee for the 2021/22 audit once the audit work is complete and discuss this with management before submitting to PSAA for approval.

All fees exclude VAT.

Other communications

EY Transparency Report 2022
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022: EY UK Transparency Report 2022 | EY UK

09 Appendices

Appendix A

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report - April 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - April 2022
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit planning report - April 2022

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Horsham District Council's ability to continue for the 12 months from the date of our report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit results report – December 2022
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report – December 2022

Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council
	▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist
	▸ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving:
	    ▸ Management;
	    ▸ Employees who have significant roles in internal control; or
	    ▸ Others where the fraud results in a material misstatement in the financial statements.
	▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected
	▸ Any other matters related to fraud, relevant to Audit Committee responsibility.
		Audit results report – December 2022

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Council's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the Council	Audit results report – December 2022
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ 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 Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report – April 2022 and Audit results report – December 2022
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Significant deficiencies in internal controls identified during the audit	▶ Significant deficiencies in internal controls identified during the audit.	Audit results report - December 2022
Consideration of laws and regulations	▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	▶ Significant deficiencies in internal controls identified during the audit.	Audit results report - December 2022
Written representations we are requesting from management and/or those charged with governance	▶ Written representations we are requesting from management and/or those charged with governance	Audit results report - December 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - December 2022

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report – December 2022
Fee Reporting	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report – April 2022 and Audit results report – December 2022
Certification work	▸ Summary of certification work	Certification Report

Page 42

Management representation letter

Management Rep Letter

Elizabeth Jackson
Ernst & Young LLP
400 Capability Green
Luton
LU1 3LU

Page 43

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 2022. 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 2022 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 2021/22

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), 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 2021/22.
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 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. 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 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

Management representation letter

Management Rep Letter

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

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

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the year to the most recent meeting on the following date: 7 December 2022.

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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 31 to the financial statements all guarantees that we have given to third parties

Management representation letter

Management Rep Letter

E. Going Concern

1. Note 32 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans

F. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

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

H. other information

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

I. Use of the Work of a Specialist

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

J. Estimates

1. We confirm that the significant judgments made in making the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision, and in generating the IAS19 pension ("the accounting estimates") have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.
3. We confirm that the significant assumptions used in making the accounting estimate appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

K. 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.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

ey.com

Horsham District Council

Statement of Accounts 2021/22

Unaudited

Contents

Narrative Statement

INTRODUCTION

Welcome to Horsham District Council's Statement of Accounts for 2021/22. The Council's finances are complex and the Council is required by law to include a large amount of detail and to present much of this in a prescribed format. Every effort has been made to make this report as understandable as possible. This Narrative Report to the Statement of Accounts presents an overview of the Council's accounts for the financial year 1 April 2021 to 31 March 2022 and aims to help readers understand the most significant issues reported in the accounts and how they relate to the Council's overall business. It includes comment on the financial performance and economy, efficiency and effectiveness in the use of resources over the financial year and in the context of the Medium-Term Financial Strategy.

BASIS OF PREPARATION

The Accounts are presented on an International Financial Reporting Standards (IFRS) basis having been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
References to material and materiality relates to the significance of transactions, balances and errors. Financial information is material if its omission or misstatement could influence the users of the accounts.

ORGANISATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

Horsham District is the second largest local authority district in West Sussex which covers a large area of open countryside, small towns and villages. There are 32 parishes each with its own parish council. The population is around 147,000 people with over 45,000 of these living in Horsham and the immediate area. Billingshurst, Southwater, Henfield, Pulborough, Storrington and Steyning are the other main centres of population with the remaining residents living in the surrounding parishes.

There is a strong administrative and service sector presence in the district alongside a retail sector with more than 4,000 commercial premise-based businesses, plus a number of small businesses run from residential properties.

In addition to financial pressure from government cuts and the impact of new legislation, the Council has been focusing on strengthening resilience in its operations and policies including financial and staffing resilience. The Council's excellent record of sound financial management puts the Council in a good position to withstand the financial challenges it faces in the future.

GOVERNANCE

The District Council has adopted the Cabinet model of governance with a Leader, Deputy Leader and Cabinet Members. Much decision making is delegated to Cabinet Members or Committees but major items of policy remain the responsibility of the Cabinet or the whole Council. The whole Council approves the Council's expenditure plan and the budget, as part of the process of setting the Council Tax each year. The Council has 48 elected Councillors.

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

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

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

The Council also has a statutory requirement under Regulation 4 of the Accounts and Audit (England) Regulations 2011 to conduct a review at least once a year of the effectiveness of its system of internal control. An Annual Governance Statement is prepared to provide assurance that the statement of accounts gives a true and fair view of the Council's financial position at the year-end and its financial performance during the year. The Annual Governance Statement is signed and reported alongside the annual Statement of Accounts. There have not been any significant changes in, or issues around, governance arrangements in the year. The Audit Committee monitors the action plan of any identified governance improvement areas.

PERFORMANCE DURING 2021/22

The Council monitors financial and non-financial performance indicators on a monthly basis. It measures and publishes its performance using a set of 32 key performance indicators which cover many of the Council's key services. The performance figures for the 2021/22 year are reported quarterly to Overview and Scrutiny Committee, with the final outturn reported in June. The Council also reviews delivery of the Corporate Plan objectives at this meeting.

These indicators show performance remained good across a lot of areas, with nearly 89% of indicators at, or close, to target. Of the three indicators outside the target, the museum had remained closed for refurbishment for the first half of the year, and the surge in numbers of households in Bed and Breakfast and temporary accommodation had risen as a result of the eviction ban lifting. The numbers have stabilised, and actions are being taken to reduce the numbers to target levels.

Employees
The number of permanent employees was 368.3 FTE at 31 March 2022 (361.6 at 31 March 2021). There were 6.0 sickness days per FTE employees (5.1 days at 31 March 2021) and remains below the 7 day target. No trends needing intervention were identified. The Council publishes equality and diversity data such as the gender pay gap, as well as other HR and Trade Union reporting data, made available on the website at:
https://www.horsham.gov.uk/communitysupport/community-support/equality,-diversity,-human-rights

Local taxpayers
During the year, the Council collected £124.24m in Council Tax on behalf of West Sussex County Council, the Sussex Police and Crime Commissioner and Horsham District Council and its towns and parishes. Around 91% of this was passed on to the other authorities. The collection rate for the year was 98.48% of the total amount due which was more than 2020/21 (98.31%). Collection of the remainder will continue into 2022/23 and the target of 98.8% remains unchanged for future years.

Provisions and write-offs
An allowance has been made for Council Taxpayers' Bad and Doubtful Debts using an analysis of the recovery position of the debts outstanding as at 31 March 2022. A total of £2.72m (£2.74m in 2020/21) has been allowed against debts of £4.46m (£4.02m in 2020/21) outstanding as at 31 March 2022. The Council's share of the allowance is £310k (£315k in 2020/21).

An allowance has also been made for Business Ratepayers' Bad and Doubtful Debts using an analysis of the recovery position of the debts outstanding as at 31 March 2022. A total of £1.01m (£1.37m in 2020/21) has been allowed against debts of £1.02m (£2.35m in 2020/21) outstanding as at 31 March 2022. The Council's share of the allowance is £406k (£546k in 2019/20).

In 2021/22 there has been £0.175m of uncollectable amounts written off (£0.260m in 2020/21).

A provision for appeals made against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2022 has been made of £4.04m (£5.01m in 2020/21). The Council's 40% share is £1.62m (£2.00m in 2019/20), as detailed in the Provisions note 18. The reduction is a result of several appeals being settled during the year.

BUDGET 2021/22

In 2021/22, the total expenditure incurred by the Council was £66.7m; this is excluding non-cash costs charged to the services such as depreciation, impairment costs and pension adjustments. Of this, the Council pays around 50% in housing benefit to many residents in the district on low incomes. This money is repaid by the Government as a subsidy.
Revenue spending is generally on items that are consumed in the financial year and is financed from Council Tax, government grant, contributions from non-domestic rates and charges for services.

The Council approved a net General Fund Revenue budget for 2021/22 of £13.0m at the formal meeting on 10 February 2021. To support with the increased cost of further Covid 19 restrictions an additional budget of £1.1m was added to the General Fund Revenue budget for 2021/22 at a formal meeting on 28 April 2021.

Net expenditure		**14,139**
Funded by:	**Council Tax**	(10,251)
	Business Rates baseline Funding	(2,052)
	Collection fund deficit	1
	One off Government funding	(717)
	Total funding	**(13,019)**
	Deficit	**1,120**

CORE STATEMENTS

Comprehensive Income and Expenditure Statement - This statement shows the accounting cost in the year of providing Services in accordance with the requirements of International Financial Reporting Standards (IFRS) as applied by the Code of Practice on Local Authority Accounting in 2021/22, rather than the amount to be funded from taxation.

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

Balance Sheet – The Balance Sheet sets out the financial position of the Council as at 31 March 2022 and consolidates the individual balance sheets of the General Fund and Collection Fund. It shows the value as at the year-end date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

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

REVENUE OUTTURN FOR 2021/22

The Council monitors its expenditure and income against budget on a monthly basis, regularly reporting to Cabinet and to Overview and Scrutiny (O&S) Committee on a quarterly basis. The 2021/22 year-end revenue and capital outturn is reported to O&S Committee in June.

The variance against original budget was reported as a surplus of £2.11m. A budget of £16k has been carried forward to 2022/23 for Economic Development to continue their training and support to local businesses.
After allowing for the budgeted transfers to reserves and other transfers to earmarked reserves, the operational outturn deficit has increased the in-year deficit on the General Fund to £0.713m as shown below.

	£000
Outturn variance reported	**(2,111)**
Budgets brought forward from 2020/21	4
Budgets carried forward to 2021/22	(16)
Services funding from Government	(1,201)
S31 Government Grants	(3,876)
Collection fund Deficit	7,950
Other adjustments	(37)
Surplus on General Fund (after transfers to earmarked reserves)	**713**

The General Fund shows a net deficit of £0.713m on expenditure and income transactions in the year. The Comprehensive Income and Expenditure Statement shows a surplus for the year of £29.59m, comprising a surplus on the provision of services of £15.199m and a surplus of £14.390m 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 £0.713m 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 £2.392m is a charge for the use of assets that reflects the notional consumption of assets during the year and revaluation decreases of £3.113m have been recognised on the revaluation of assets.

ii) **A charge for revenue expenditure funded from capital under statute (REFCUS).** A charge of £3.044m 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 £7.407m have been credited in accordance with proper accounting practice. However, these grants are used to fund the Council's capital programme and do not fall into the General Fund.

iv) **A charge for pensions** of £3.279m representing the difference between the accounting cost of pensions of £5.760m (as estimated by the Pension Fund actuary in accordance with IAS19) and the actual employer contributions of £2.481m paid to the West Sussex Pension Fund. Further details of the movement in the pension fund liability are shown in note 30.

v) **A gain on the disposal of assets** of £0.684m. 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 2021/22 the amount set aside was £0.92m (2020/21 £0.88m). This is a charge to the General Fund which is not shown inthe 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	**713**
Transfers (to) / from earmarked reserves	(5,114)
Accounting adjustments	
Charge for depreciation	2,392
Revaluation of non-current assets	(3,113)
Revenue expenditure charged to capital	3,044
Capital grant income	(8,531)
IAS19 pension costs	3,279
(Gain) / loss on disposal of assets	(684)
Minimum Revenue Provision	(918)
Share of in year deficit on the Collection Fund	(5,298)
Other technical adjustments	(1,100)
Surplus on provision of services per CIES	**(15,330)**

CAPITAL EXPENDITURE

Capital expenditure relates to the acquisition, creation or enhancement of assets that yield benefits for more than one year and is financed by grants, contributions, loans and capital receipts generated from the disposal of assets.
Against a final capital plan of £8.3m in 2021/22, the Council's capital spending for the year was £4.7m across a range of 24 capital schemes with the largest being:

- £1.1m on disabled facilities using Government grant funding to help disabled residents live in their homes
- £0.9m on Housing Enabling grants, to help towards the provision of affordable housing in the district.
- £0.9m on S106 and CIL infrastructure spend by parishes
- £0.7m on the refurbishment and carbon reduction improvements at St Peter's Hall

The 2021/22 capital programme did not move forward at the expected rate during the year. Spend on vehicle replacement was curtailed as the Council reviewed the strategy to re-use or replace using alternative fuels such as electric vehicles. A £0.7m extension at an industrial estate unit was paused due to a third party pausing the development. Where projects are continuing, the unspent capital budget has been re-profiled into 2022/23 and later years.

Where not re-profiled, unspent budgets are removed from the capital programme, as the original schemes are either superseded or no longer needed. The 2022/23 capital programme will be £12m.

FINANCIAL POSITION AT 31 MARCH 2022

The net worth of the District Council is shown in the Balance Sheet. It has increased by £29.72m from 31 March 2021.

Property, Plant and Equipment value has increased by £6.3m to £114.2m including surplus assets, with additions of £1.4m, depreciation of £2.4m, overall net upward revaluations of £4.3m. Investment Property value has risen by £1.7m to £59.7m due to £1.8m in net gains from fair value adjustments, £0.1m additions and £0.2m disposal in year.

The net pension asset increased by £5.2m from a net pension surplus of £31.0m at 31 March 2021 to a net pension surplus of £36.2m at 31 March 2022. The value of assets decreased less than the decrease in liabilities from changes in the financial assumptions on salaries, inflation and future liability discounts used by the Actuary. This position is a snapshot of the actuarial assessment at the Balance Sheet date and does not mean that the pension fund will remain in surplus in the future. Asset values of the fund can decrease and the liabilities can also significantly increase in the future.

A full triennial valuation of the Fund was undertaken at 31 March 2019 and revised employer contribution rates were agreed for the three years from 1 April 2020. The contribution rate was 19% in 2021/22, and will reduce to a contribution rate of 18% in 2022/23. The Council relies on and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation. Full details of the movement in the liability are shown in note 30.

The level of usable capital and revenue Reserves increased by £9.52m to £67.9m during 2021/22. The Council's level of General Reserves held at 31 March 2022 stands at £24.2m. Given our intention to become financially independent in the medium term, our reserves will enable us to invest in transformation as well as mitigate against any financial uncertainty from the multiple and various risks faced. A policy was developed during 2017 for the New Homes Bonus reserve to strengthen the Council's ability to generate income from appropriate investments in order to receive income to support future service delivery and secure the delivery of infrastructure to serve the needs of the district's residents. Further details on reserves can be found in note 19.

The Council does not have any borrowing.

FINANCIAL OUTLOOK INCLUDING STRATEGY AND RESOURCE ALLOCATION

The Covid-19 pandemic legacy continued to have an impact on the lives of our residents and businesses during 2021/22. The Council too remains affected by a reduction of income and higher levels of expenditure compared to pre-pandemic. Whilst a £2.1m operational surplus was produced in 2021/22, this was in the context of a very cautious budget set in lockdown in January 2021. Net expenditure was still £1m higher than 2019/20 levels, so there is still some way to go as new habits such as hybrid working have become semi-permanent. Restructure actions taken at the end of 2020 contributed a saving of approximately £1.4m per year going forward which have helped.

Operationally, the impact has fallen heavily fallen on Revenues and Benefits, both from increased benefit claims and the application of the measures announced by The Chancellor to support businesses through grant funding, and rate reliefs and rate discounts during the pandemic. The Council received close to £10m of grant funding from Government in 2021/22 and paid out close to £9.9m during the year across ten complex and detailed grant schemes, helping to support many hundreds of businesses that were forced to close or were severely affected by the restrictions and lockdowns. £7.4m of this was spent as agent transactions, where the Council paid set amounts to specific businesses for specific periods of time effectively on behalf of Government. £2.5m was spent as principal transactions, where the Council was given the grant funding and had discretion on amounts and recipients to support businesses on a case-by-case basis under broader, more localised criteria.

The principal transactions are reported in the CIES and grant disclosure note 10. The additional costs of the extra administration were broadly met by new burdens grants during 2021/22 as Government recognised the impact on local authorities, but there is a continuing impact on the Revenues and Benefits and Finance payment teams too.

Income largely met the 2021/22 budget across most services, albeit that the budgets were dampened for the expected impact of Covid-19 when set in lockdown in February 2021. Parking income remains £0.6m below the pre-pandemic levels, with lower numbers of annual season tickets being sold as customer habits changed to more flexible working patterns. The numbers of parking customers has generally recovered but dwell time has lagged. Income may therefore never return to previous levels. Deferral and write-off of some rents and some re-negotiations of rent levels continues to affect a small proportion of property investment income. Support for the leisure centres reduced in 2021/22 as numbers of users returned and the Council anticipates that the leisure contract will return to management fee income in 2022/23.

At 31 March 2022, the Council has £24.2m of general fund reserves and £23.6m of earmarked reserves including £12.6m in New Homes Bonus. It is expected that £0.107m will be used to top the transformation fund back up to £0.5m, providing funds to drive transformational changes in the future. The Council will continue to harness the digital opportunities to better meet customer expectations and needs and also reduce the re-keying of data. Transformation will help protect the level of general fund reserves with an aim to keep them above the £6m minimum level of general reserves that Members agreed upon in 2012. The Council is also due to receive £2.1m in New Homes Bonus during 2022/23 which is not ring-fenced, nor presently taken into the revenue budget.

The values in the balance sheet at 31 March 2022 are just a snapshot in time and the value of the asset base, investment assets and pension fund assets continue to fluctuate. The value of pension fund and treasury investments have continued to hold up. Income from treasury investments suffered from near zero interest rates on short term cash for much of the year, but were held up by the income from the longer-term pooled funds.

The 2021/22 budget was set in February 2021 to balance with the help of Government Covid-19 related grants. The ongoing risk though is that the Council will not be able to return to previous levels of income if consumer habits permanently change and that the rate of inflation continues at close to double-digit levels, but the Government grants fall away as expected. Greater detailed budget monitoring and forecasting will be key to understanding 2022/23 in more detail, especially as events outside the Council's control play out with regards to inflation. The current cost of living crisis is expected to continue in 2022/23 and beyond,,early identification of issues will help the Council take action to further mitigate overspends and reduce the impact on cash flows. A £1m earmarked reserve for inflationary pressures has been set aside to mitigate the risk of inflation related overspends in 2022/23 as well as the Council using existing reserves to support residents.

The Interim Director of 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 Medium-Term Financial Strategy will be regularly revisited during 2022/23 as it was in 2021/22, updating the assumptions. The outcome from forthcoming Government reviews of Business Rates and Fair Funding together with costs of decarbonisation during the decade and any implementation of food waste, leaves significant uncertainty for the financial position in the future.

The Council's cash flow remains healthy. At the current year-end, the Council has £15m of cash and cash equivalents. The value of treasury investments including those classified as cash and cash equivalents ended the year at £10.5m.

Over the last 12 months, the Council has made some significant decisions that will affect the future use of the Council's resources and will impact on the financial position of its Balance Sheet. The following significant capital expenditure has either been completed in 2021/22 or is planned to complete over the next twelve months:

- Completion of the Warnham nature reserve discovery hub; £0.5m visitors centre building at the nature and conservation reserve. The Council was awarded a £0.28m grant by the European Agricultural Fund for Rural Development who support investment in publicrecreational infrastructure to help fund this.
- £1m in 2022/23 of a £2.6m extension to an Industrial estate unit, completing in 2023/24.
- £1m in 2022/23 of a £2.5m public realm strategy design and delivery, completing in 2023/24.
- £0.75m in 2022/23 of a £2.6m community building and nursery at Highwood.

RISKS AND OPPORTUNITIES

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

- significant economic uncertainty from world events, especially on the global supply chain and inflation.
- income may be significantly affected by external factors such as recession, or by permanent changes to consumer behaviour
- changes to organisation processes or ICT infrastructure that slow the achievement of strategic objectives.
- a solution to develop a water neutrality mitigation strategy cannot be found and a Local Plan is not developed.
- further or steeper funding cuts / to help government meet their financial targets especially beyond the current settlement period (2023).
- Fair Funding Review outcomes, including any impact on locally generated sales, fees and charges.
- legislation forcing local government to pick up additional responsibilities that we don't yet know about.

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

FURTHER INFORMATION

Interested members of the public have a statutory right to inspect the accounts from 4 July 2022 to 12 August 2022. The notice was placed on the Horsham District Council website, under the Finance and Performance Service - Statement of Accounts.

Further information on the contents of this publication can be obtained from the Interim Director of Resources; Dominic Bradley (Dominic.Bradley@horsham.gov.uk) or the Interim Head of Finance and Performance; Samantha Wilson (Samantha.Wilson@horsham.gov.uk, at Horsham District Council, Parkside, Chart Way, Horsham, West Sussex RH12 1RL.

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

Statement of Responsibility for the Financial Statements

THE AUTHORITY'S RESPONSIBILITIES

The authority is required to:

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

THE DIRECTOR OF CORPORATE RESOURCES RESPONSIBILITIES

The Director of Corporate Resources is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Director of Corporate Resources has:

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

The Director of Corporate Resources has also:

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

CERTIFICATION OF THE ACCOUNTS

I hereby certify that the Statement of Accounts 2021/22 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 2022.

Dominic Bradley C.P.F.A.
Interim Director of Resources

APPROVAL OF THE ACCOUNTS

I hereby certify that the Statement of Accounts 2021/22 have been approved by the Council's Audit Committee under delegated powers at a meeting held on

Councillor Stuart Ritchie
Chairman of the Audit Committee

THIS PAGE IS INTENTIONALLY BLANK

THIS PAGE IS INTENTIONALLY BLANK

-

Movement in Reserves Statement

	General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Note
	£000	£000	£000	£000	£000	£000	
Balance at 1 April 2020	**(25,191)**	**(2,088)**	**(10,646)**	**(37,925)**	**(156,681)**	**(194,605)**	
Movement in reserves during 2020/21:							
(Surplus) or deficit on provision of services	(13,570)	0	0	(13,570)	0	(13,570)	7
Other Comprehensive Expenditure and Income	0	0	0	0	(6,016)	(6,016)	
Total Comprehensive Expenditure and Income	(13,570)	0	0	(13,570)	(6,016)	(19,586)	
Adjustments between accounting basis & funding basis under regulations	(4,731)	366	(2,519)	(6,884)	6,884	0	7,11
Increase/Decrease (movement) in year	(18,301)	366	(2,519)	(20,454)	868	(19,586)	
Balance at 31 March 2021 carried forward	**(43,492)**	**(1,722)**	**(13,165)**	**(58,379)**	**(155,813)**	**(214,191)**	
Movement in reserves during 2021/22:							
(Surplus) or deficit on provision of services	**(15,330)**	**0**	**0**	**(15,330)**	**0**	**(15,330)**	7
Other Comprehensive Expenditure and Income	**0**	**0**	**0**	**0**	**(14,390)**	**(14,390)**	
Total Comprehensive Expenditure and Income	**(15,330)**	**0**	**0**	**(15,330)**	**(14,390)**	**(29,720)**	
Adjustments between accounting basis & funding basis under regulations	**10,981**	**89**	**(5,255)**	**5,815**	**(5,815)**	**0**	7,11
Increase/Decrease (movement) in year	**(4,349)**	**89**	**(5,255)**	**(9,515)**	**(20,205)**	**(29,720)**	
Balance at 31 March 2022 carried forward	**(47,842)**	**(1,633)**	**(18,419)**	**(67,894)**	**(176,017)**	**(243,911)**	

Comprehensive Income and Expenditure Statement

2020/21 Gross Expenditure	2020/21 Gross Income	2020/21 Net Expenditure		2021/22 Gross Expenditure	2021/22 Gross Income	2021/22 Net Expenditure	Note
£000	£000	£000		£000	£000	£000	
2,780	(41)	2,739	Audit, Finance HR & Commissioning	2,761	(44)	2,717	
6,593	(2,090)	4,503	Leisure & Culture	5,296	(2,118)	3,178	
1,339	(16)	1,323	Corporate Management	1,287	(36)	1,251	
400	(1)	399	Customer Services	327	(2)	325	
4,217	(2,595)	1,622	Housing & Community Services	5,823	(3,674)	2,149	
1,880	(33)	1,847	ICT	2,178	(128)	2,050	
1,692	(116)	1,576	Legal and Democratic Services & Elections	1,827	(96)	1,731	
5,578	(4,750)	828	Parking	1,100	(4,840)	(3,740)	
5,735	(3,508)	2,227	Planning & Economic Development	6,614	(3,622)	2,992	
1,970	(273)	1,697	Property & Facilities	2,582	(264)	2,318	
9,796	(4,294)	5,502	Refuse, Cleansing & Environmental Services	11,637	(5,030)	6,606	
26,956	(26,809)	147	Revenues & Benefits	25,284	(25,320)	(36)	
68,936	**(44,526)**	**24,410**	**Cost of Services**	**66,716**	**(45,174)**	**21,542**	7
		3,602	Other operating expenditure			3,255	8
		(9,559)	Financing and investment income and expenditure			(8,010)	9
		(32,023)	Taxation and non-specific grant income			(32,117)	10
		(13,570)	**(Surplus) or deficit on provision of services**			**(15,330)**	7
			Items that will not be classified to the (Surplus) or deficit on the Provision of Services				
		789	Surplus or deficit on revaluation of Property, Plant and Equipment assets			(5,958)	
		(6,705)	Actuarial (gains)/losses on pensions assets			(8,432)	30
		(100)	Surplus or deficit on revaluation of financial assets			0	
		(6,016)	**Other Comprehensive Income and Expenditure**			**(14,390)**	
		(19,586)	**Total Comprehensive Income and Expenditure**			**(29,720)**	

Balance Sheet

31.03.2021		31.03.2022	Note
£000	**NON-CURRENT ASSETS**	£000	
	Property, Plant and Equipment		
104,161	- Other Land and Buildings	109,809	12
2,415	- Vehicles, Plant, Furniture & Equipment	1,788	12
283	- Assets under construction/Awaiting Development	5	12
1,057	- Surplus Assets	2,558	12
531	Heritage Assets	531	
57,996	Investment Property	59,746	13
8	Intangible Assets	0	
313	Assets Held for Sale	0	
31,006	Pension Asset	36,159	30
218	Long-term Debtors	214	
25,162	Long-term Investments	26,151	14
223,150	**TOTAL LONG-TERM ASSETS**	**236,961**	
13,415	Short - term Investments	42,779	14
91	Inventories	159	
5,862	Short -term Debtors	5,137	16
20,981	Cash and Cash Equivalents	14,945	15
40,349	**CURRENT ASSETS**	**63,020**	
(19,431)	Short-term Creditors	(30,794)	17
(19,431)	**CURRENT LIABILITIES**	**(30,794)**	
(394)	Provisions	(219)	18
(2,004)	Provision for Business Rates Appeals	(1,618)	18
(335)	Council tax and NDR appropriations	(449)	
(13,837)	Long-term liabilities - S106 Contribution	(9,601)	18
(364)	CIL Contribution	(720)	
(821)	Rent Deposits and Other Balances	(1,322)	
(12,122)	Capital Grants & Receipts in Advance	(11,347)	18
(29,877)	**LONG-TERM LIABILITIES**	**(25,275)**	
214,191	**NET ASSETS**	**243,912**	
	Usable Reserves		
(43,492)	- Reserves	(47,842)	19
(1,722)	- Capital Receipts Reserve	(1,633)	19
(13,165)	- Capital Grants & Contributions Unapplied	(18,420)	19
	Unusable Reserves		
(34,194)	- Revaluation Reserve	(36,425)	20
(31,006)	- Pensions Reserve	(36,159)	20,30
(98,336)	- Capital Adjustment Account	(104,794)	20
(484)	- Pooled Fund Adjustment Account	(1,374)	
(60)	- Financial Instrument Revaluation Reserve	(60)	
7,874	- Collection Fund Adjustment Account	2,576	20
394	- Accumulating Absences Adjustment Account	219	
(214,191)	**TOTAL RESERVES**	**(243,912)**	

Dominic Bradley C.P.F.A Interim Director of Resources

Cash Flow Statement

2020/21 £000		2021/22 £000	Note
	Operating activities		
(13,570)	(Surplus) or deficit on provision of services	(15,330)	7
(13,730)	Adjust net surplus or deficit on the provision of services for non- cash movements	8,042	21
5,566	Adjust for items in the net deficit on the provision of services that are investing or financing activities	9,399	21
(21,734)	**Net cash flows from Operating activities**	**2,111**	
	Investing activities		
2,835	Purchase of property, plant and equipment, investment property and intangible assets	1,562	
111,126	Purchase of short-term and long-term investments	187,408	
183	Other payments for investing activities	0	
(552)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(924)	
(105,517)	Proceeds from short-term and long-term investments	(157,000)	
(5,500)	Other receipts from investing activities	(7,914)	
2,575	**Net cash flows from investing activities**	**23,132**	
	Financing Activities		
4,465	Other receipts from financing activities	(19,206)	
0	Other payments for financing activities	0	
4,465	**Net cash flows from financing activities**	**(19,206)**	
(14,693)	Net (increase) or decrease in cash and cash equivalents	6,036	
6,288	**Cash and cash equivalents at 1 April**	**20,981**	15
20,981	**Cash and cash equivalents at 31 March**	**14,945**	15

Notes to the Core Statements

1 ACCOUNTING POLICIES

GENERAL PRINCIPLES

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

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

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

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

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

CASH AND CASH EQUIVALENTS

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

EXCEPTIONAL ITEMS

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

PRIOR PERIOD ADJUSTMENTS

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

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

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

Material errors 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 the Council's overall borrowing requirement to finance capital expenditure, or as transfers to other earmarked reserves, are disclosed separately in the Movement in Reserves Statement.

MINIMUM REVENUE PROVISION

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

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

EMPLOYEE BENEFITS

Officers Emoluments and Senior Officer Remuneration

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

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

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

Exit Packages and Termination Costs

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

Post- Employment Benefits - Pensions

Horsham District Council employees have the right to membership of the Local Government Pension Scheme, administered by West Sussex County Council. This scheme is accounted for as a defined benefits scheme. Pension costs have been accounted for in accordance with IAS19 Retirement Benefits. The basic principle being that the Council accounts for retirement benefits when it is committed to give them, even if the actual payment is in the future. The estimated economic current costs are based on valuations provided by the Fund's actuaries.

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

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

- Quoted securities - current bid price
- Unquoted securities - professional estimate
- Unitised securities - current bid price

- Property - market value

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

- Current service cost – the increase in liabilities as a result of years of service earned this year are allocated in the Comprehensive Income and Expenditure Account to the revenue accounts of services for which the employees worked.
- Past service cost – the increase or decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. These are debited/credited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Re-measurement of the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions- recognised in Other Comprehensive Income and Expenditure.
- Contributions paid to the West Sussex County Council Pension Fund – cash paid as employer contributions to the pension fund.

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

Discretionary Benefits

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

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

EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

FINANCIAL INSTRUMENTS

Financial Liabilities

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

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

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

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

Financial Assets Measured at Fair Value through Other Comprehensive Income

These assets are treated as Financial Assets Measured at Fair Value through Profit of Loss in terms of valuations but any gains and losses are taken to the Financial Instrument Revaluation Reserve rather than the Surplus or Deficit on the Provision of Services. Any gains and losses that arise on the derecognition of the asset are credited or debited to the General Fund through the Movement in Reserves Statement. The relevant assets are the Fundamentum REIT and the Council's investment in its Housing Subsidiary which are equity instruments which the Council has elected to treat in this category.

GRANTS AND CONTRIBUTIONS

Where the Council has not identified itself as an agent, grants have been recognised using the following accounting policy:

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

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

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

COLLECTION FUND

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

COUNCIL TAX INCOME

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

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

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

NATIONAL NON-DOMESTIC RATES (NNDR)

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

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

Safety net arrangements are in place to protect the Council from the impact of any reductions below 5% of its baseline funding level.

HERITAGE ASSETS

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

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

Heritage assets shall normally be measured at valuation in accordance with Financial Reporting Standard 102 but the Standard states that valuations may be made by any method that is appropriate and relevant. Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets can be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses). The museum collections have not been valued as the cost of valuation is not seen as commensurate with benefits to users; historic cost information is not available for collection. The artworks are valued using historic costs where records are available while the war memorial, due to its special nature, is valued at its depreciated replacement cost.

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

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

The Council does not recognise any intangible heritage assets.

INTANGIBLE ASSETS

Intangible assets such as software and licences give an economic benefit over more than one year. They are initially recognised at cost and then amortised over their useful lives. The gain or loss on disposal of intangible assets is recognised in the Comprehensive Income and Expenditure Account. To comply with statute the gain or loss is reversed out in the Movement in Reserves Statement (MiRS).

INVENTORIES & WORK IN PROGRESS

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

INVESTMENT PROPERTY

Investment properties are held to earn return rather than to provide services. The Council holds a number of commercial properties that it categorises as Investment Properties on the basis that the properties are rented to commercial entities using standard commercial terms of the rental rather than concessionary terms to specific classes of commercial tenants.

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

Investment properties are not depreciated but valued annually. When a value is changed any gain or loss is recognised in the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement but is reversed out of the General Fund in the Movement in Reserves Statement as required by statutory regulation. Gains and losses on disposal are treated similarly.

LEASES

Leases are classified as finance or operating leases based on the extent that the risks and rewards associated with a leased asset lie with the lessor or lessee. If substantially all the risks and rewards of the lease transfer to the lessee it is a finance lease, otherwise an operating lease. For purpose of classification land and buildings are considered separately. The Council has no material investment in finance leases as lessee or lessor.

The Council as a Lessee

Operating Leases

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

The Council as a Lessor

Operating Leases

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

OVERHEADS AND SUPPORT SERVICES

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

PROPERTY, PLANT AND EQUIPMENT

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

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

- Initially at cost including any costs attributable to bringing the asset into use and subsequently at market value for the existing use except for assets which are rarely subject to an open market where depreciated replacement cost is used.
- Assets under construction and community assets are held at depreciated historic cost.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective

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

In order to account properly for valuation changes the Revaluation Reserve was set up with a zero balance at 1 April 2007. Any revaluation upward results in a credit to the reserve. A downward revaluation can be set against the Revaluation Reserve if there is a balance referring to the devalued asset. As the reserve was set at zero many downwards revaluation of assets could appear as an impairment in the Comprehensive Income and Expenditure Statement (CIES). Revaluation of property, plant and equipment is planned at five-yearly intervals, although material changes to asset valuations will be adjusted in the interim period, as an assessment is made at the end of each year for any indication that assets may be impaired in addition to cyclical revaluations. Any impairment would be written off against any revaluation gain for that asset in the Revaluation Reserve or otherwise recognised in the Comprehensive Income and Expenditure Statement.

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

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

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

Where a significant component part of an asset has a different useful life to other parts it will be depreciated separately. Where a component is replaced or restored the carrying amount of the old component shall be derecognised.

DEPRECIATION

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

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

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

PROVISIONS & RESERVES

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

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

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

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

CONTINGENT LIABILITIES

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

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

CONTINGENT ASSETS

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

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

VALUE ADDED TAX

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

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

The Code of Practice on Local Council Accounting in the United Kingdom 2021/22 (the Code) requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted by the Code for the relevant financial year. The standards introduced by the 2022/23 Code and relevant for additional disclosures that will be required in the 2021/22 financial statements in accordance with the requirements of paragraph 3.3.4.3 of the Code are:

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

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

IFRS 16 Leases has been issued by IASB. Adoption has been postponed until at least the 2022/23 CIPFA Accounting Code of Practice and will require Council's that are lessees to recognise the majority of leases on their balance sheets as right-of- use assets with corresponding lease liabilities.

3 CRITICAL JUDGEMENTS AND ASSUMPTIONS

Critical Judgements

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

- Future levels of local authority funding and income are uncertain. However based on the current level of reserves and its medium term planning using prudent assumptions on funding, and based on announcements made by central government, the Council judges that its assets will not be impaired as a result of a need to close facilities, reduce service provision or ongoing maintenance in the short term.
- The Council holds a significant portfolio of investment property and although general economic activity is fragile, the Council judges that its portfolio in the context of the local economy is robust enough that its overall asset portfolio will not be impaired as a result of short term decrease in economic activity.
- The Council does not expect the tax gathering mechanisms for Council Tax and Business Rates to fundamentally alter the Council's financial stability. The risk within the rates retention scheme is assumed to be the safety net which has been set by the government at 7.5% of the Council spending baseline which equates to £154k.

Assumptions and Other Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 2022 for which there is a significant risk of material adjustments in the forthcoming financial year are as follows:

Pension Liability

Estimation of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. However the interaction of these assumptions is complex.

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

During 2021/22 the actuaries advised that the pension liability had been affected as follows:

Change in assumptions year ended 31 March 2022	Approximate % increase to Employer	Approximate monetary amount £000
0.1% decrease in Real Discount Rate	2%	3,260
1 year increase in member life expectancy	4%	7,135
0.1% increase in Salary Increase Rate	0%	233
0.1% increase in the Pension Increase Rate	2%	3,003

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 £314k.

Property, plant and equipment

The depreciation of buildings is based on estimated useful life and residual value which is based on the present use and level of maintenance which in turn depends on the continued level of funding. For every year that the remaining lives of buildings were to decrease the extra depreciation would be £0.033m.

Business Rates

The Business Rates Retention Scheme became effective from 1 April 2013 and as a result local authorities are liable for any successful appeals against business rates by businesses in 2012/13 and earlier financial years in their proportional share. The Council has a total provision of £4.0m as an estimate of potential successful appeals up to 31 March 2022, the Council's proportion (40%) reflected in the Balance Sheet is £1.6m. This estimate is calculated using Valuation Office ratings list of appeals an analysis of successful appeals to date for 2010 list and the percentage built into the multiplier by MHCLG for the 2017 list.

4 PRIOR PERIOD ADJUSTMENTS.

There have not been any prior period adjustments made to these accounts.

5 MATERIAL ITEMS OF INCOME AND EXPENSE

Material items in terms of the Council's overall net expenditure, which are derived from events or transactions that are not expected regularly, that fall within the ordinary activities of the Council. They are required to be disclosed separately by virtue of their size or incidence to give a fair presentation of the accounts. There were no material items of income or expenditure in 2020/21 or 2021/22 other than disclosed on the face of the Comprehensive Income and Expenditure Statement.

6 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts were authorised for issue by the Interim Director of Resources for Horsham District Council on xx xxx xxxx. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and note have been adjusted in all material respects to reflect the impact of this information.

7 EXPENDITURE AND FUNDING ANALYSIS

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

2020/21 Net Expenditure Chargeable to the General Fund Balance	2020/21 Adjustments between Funding and Accounting Basis (Note 7a)	2020/21 Net Expenditure in the Comprehensive Income and Expenditure Statement		2021/22 Net Expenditure Chargeable to the General Fund Balance	2021/22 Adjustments between Funding and Accounting Basis (Note 7a)	2021/22 Net Expenditure in the Comprehensive Income and Expenditure Statement
1,500	1,239	2,739	Audit, Finance, HR & Commissioning	1,876	841	2,717
3,652	851	4,503	Leisure & Culture	2,120	1,058	3,178
1,611	(288)	1,323	Corporate Management	1,039	212	1,251
371	28	399	Customer Services	280	45	325
983	639	1,622	Housing & Community Services	1,125	1,025	2,149
1,727	120	1,847	ICT	1,866	184	2,050
1,191	385	1,576	Legal and Democratic Services & Elections	1,594	137	1,731
(425)	1,253	828	Parking	(2,240)	(1,500)	(3,740)
2,045	182	2,227	Planning & Economic Development	1,433	1,559	2,992
(2,394)	4,091	1,697	Property & Facilities	(2,164)	4,482	2,318
3,720	1,782	5,502	Refuse, Cleansing & Environmental Services	3,873	2,734	6,607
798	(651)	147	Revenues & Benefits	573	(609)	(36)
14,779	**9,631**	**24,410**	**Net cost of services**	**11,373**	**10,168**	**21,542**
(33,081)	(4,899)	(37,980)	Other income and expenditure	(15,722)	(21,149)	(36,872)
(18,302)	**4,732**	**(13,570)**	**Surplus or deficit**	**(4,349)**	**(10,981)**	**(15,330)**
(25,189)			Opening General Fund Balance	**(43,491)**		
(18,302)			Less Surplus on General Fund in Year	**(4,349)**		
(43,491)			**Closing General Fund Balance**	**(47,840)**		

7a ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS

2021/22

Adjustments from General fund to arrive at Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Covid-19 Support	Other Differences	Total Adjustments
Audit, Finance, HR & Commissioning	0	218	(2,473)	3,096	841
Leisure & Culture	717	284	(146)	204	1,058
Corporate Management	0	214	0	(2)	212
Customer Services	0	45	0	0	45
Housing Services	1,138	450	17	(581)	1,025
ICT	8	189	0	(14)	184
Legal and Democratic Services & Elections	0	197	0	(60)	137
Parking	(1,319)	139	(272)	(49)	(1,500)
Planning & Economic Development	948	877	0	(266)	1,559
Property & Facilities	(917)	96	0	5,303	4,482
Refuse, Cleansing & Environmental Services	1,724	1,164	0	(154)	2,734
Revenues & Benefits	0	0	(257)	(352)	(609)
Other income and expenditure from the Funding Analysis	(10,111)	(594)	3,129	(13,573)	(21,149)
Difference between General Fund (Surplus) or deficit and Comprehensive Income and Expenditure (surplus) or deficit on the provision of services	**(7,811)**	**3,279**	**0**	**(6,449)**	**(10,981)**

2020/21

Adjustments from General fund to arrive at Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Covid-19 Support	Other Differences	Total Adjustments
Audit, Finance, HR & Commissioning	(4)	323	0	920	1,239
Leisure & Culture	1,760	132	(762)	(279)	851
Corporate Management	0	84	0	(372)	(288)
Customer Services	0	28	0	0	28
Housing Services	499	151	0	(11)	639
ICT	13	63	0	43	120
Legal and Democratic Services & Elections	0	67	0	318	385
Parking	3,199	52	(1,998)	0	1,253
Planning & Economic Development	102	300	(191)	(29)	182
Property & Facilities	(2,346)	34	0	6,403	4,091
Refuse, Cleansing & Environmental Services	1,507	381	0	(106)	1,782
Revenues & Benefits	0	0	0	(651)	(651)
Other income and expenditure from the Funding Analysis	(6,310)	(580)	2,951	(958)	(4,899)
Difference between General Fund (Surplus) or deficit and Comprehensive Income and Expenditure (surplus) or deficit on the provision of services	**(1,580)**	**1,034**	**0**	**5,278**	**4,732**

8 OTHER OPERATING EXPENDITURE

	2020/21	2021/22
	£000	£000
Parish council precepts	3,865	3,939
(Gains)/losses on the disposal of non-current assets	(263)	(684)
Total	**3,602**	**3,255**

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2020/21	2021/22
	£000	£000
Net interest incomeon LGPS Pension	(582)	(594)
Interest receivable and similar income	(867)	(1,217)
Income and expenditure in relation to investment properties and changes in their fair value (as detailed in note 13)	(5,771)	(5,309)
Changes in fair value of investments	(2,339)	(890)
Total	**(9,559)**	**(8,010)**

10 TAXATION AND GRANT INCOME

	2020/21	2021/22
	£000	£000
Benefits Grants	(24,400)	(23,138)
Other Government Grants	(4,946)	(3,345)
Other Grants	(1,677)	(503)
Grants credited to Services	**(31,023)**	**(26,986)**
Council Tax	(13,687)	(14,185)
Non Domestic Rates income & expenditure	6,825	977
Lower Tier Funding	0	(1,201)
New Homes Bonus	(4,831)	(3,083)
Section 31 Grant – Business Rates Reliefs	(10,677)	(7,279)
Covid-19 Support Grants	(1,753)	(571)
Discretionary Covid-19 Grants	(2,779)	1,756
Capital grants and contributions	(5,121)	(8,531)
Credited to Taxation and Non Specific Grant Income	**(32,023)**	**(32,117)**

During the year, the Council received £1.81m in discretionary Covid-19 grants. In 2021/22 £3.53m was paid to local businesses, this was paid using the in-year receipts and ear marked reserve that was created in 2020/21.

11 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2021/22	**Usable Reserves**			
	General Fund Balance	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**
Adjustments primarily involving the Capital Adjustment Account: Reversal of items debited or credited to the Comprehensive Incomeand Expenditure Statement:				
Charges for depreciation of non-current assets	(2,392)			2,392
Revaluation movement in Property, Plant and Equipment	1,269			(1,269)
Movements in the market value of Investment Properties	1,844			(1,844)
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	(570)			570
Revenue expenditure funded from capital under statute	(3,044)			3,044
Insertion of items not debited or credited to the ComprehensiveIncome and Expenditure Statement:				
Statutory provision for the financing of capital investment	918			(918)
Capital expenditure financed from revenue balances	86			(86)
Adjustments primarily involving the Capital Grants UnappliedAccount:				
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	8,531		(5,255)	(3,276)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,254	(1,254)		
Use of the Capital Receipts Reserve to finance new capital expenditure		1,343		(1,343)
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Gain/loss on revaluation of Financial Instruments Adjustment Account	890			(890)
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,760)			5,760
Employers pension contributions and direct payments to pensioners payable in the year	2,481			(2,481)
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	5,298			(5,298)
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 accordance with statutory requirements	175			(175)
Total Adjustments	**10,980**	**89**	**(5,255)**	**(5,815)**

2020/21

	Usable Reserves			
	General Fund Balance	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**
Adjustments primarily involving the Capital Adjustment Account: Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation of non-current assets	(2,703)			2,703
Revaluation movement in Property, Plant and Equipment	(1,996)			1,996
Movements in the market value of Investment Properties	2,067			(2,067)
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	(490)			490
Revenue expenditure funded from capital under statute	(2,520)			2,520
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	880			(880)
Capital expenditure financed from revenue balances	173		31	(204)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	5,121		(2,550)	(2,571)
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	753	(753)		
Use of the Capital Receipts Reserve to finance new capital expenditure		1,119		(1,119)
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Gain/loss on revaluation of Financial Instruments Adjustment Account	2,339			(2,339)
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,850)			3,850
Employers pension contributions and direct payments to pensioners payable in the year	2,816			(2,816)
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	(7,086)			7,086
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	(235)			235
Total Adjustments	**(4,731)**	**366**	**(2,519)**	**6,884**

12 PROPERTY, PLANT & EQUIPMENT

Movements in 2021/22	**Other Land & Buildings**	**Vehicles, Plant, Furniture & Equipment**	**Assets Under Construction**	**Total Property, Plant & Equipment**
Cost or Valuation	**£000**	**£000**	**£000**	**£000**
At 1 April 2021	**104,762**	**8,688**	**283**	**113,733**
Additions	1,158	273		1,431
Reclassifications	54		(278)	(224)
Revaluation increase/(decreases) recognised in the Revaluation Reserve	4,650			4,650
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	1,269			1,269
De-recognition – disposal				
Other movements in cost or valuation	(1,537)			(1,537)
Other movement	(39)			(39)
At 31 March 2022	**110,317**	**8,961**	**5**	**119,283**
Accumulated Depreciation and Impairment				
At 1 April 2021	**(601)**	**(6,273)**		**(6,874)**
Depreciation charge	(1,483)	(900)		(2,383)
Written out to the Revaluation Reserve	1,308			1,308
Written out to the Surplus/Deficit on the Provision of services	229			229
Other movement	39			39
At 31 March 2022	**(508)**	**(7,173)**	**0**	**(7,681)**
Net Book Value				
At 31 March 2022	**109,809**	**1,788**	**5**	**111,602**
At 31 March 2021	**104,161**	**2,415**	**283**	**106,859**

Movements in 2020/21	**Other Land & Buildings**	**Vehicles, Plant, Furniture & Equipment**		**Total Property, Plant & Equipment**
Cost or Valuation	**£000**	**£000**	**£000**	**£000**
At 1 April 2020	109,635	8,506	5	118,146
Additions	901	187	278	1,366
Reclassifications	(137)			(137)
Revaluation increase/(decreases) recognised in the Revaluation Reserve	(1,865)			(1,865)
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,990)	(5)		(1,995)
De-recognition – disposal	(15)			(15)
Other movements in cost or valuation	(1,767)			(1,767)
At 31 March 2021	104,762	8,688	283	113,733
Accumulated Depreciation and Impairment				
At 1 April 2020	(821)	(5,137)		(5,958)
Depreciation charge	(1,556)	(1,136)		(2,692)
Written out to the Revaluation Reserve	840			840
Written out to the Surplus/Deficit on the Provision of Services	927			927
Other movements	9			9
At 31 March 2021	(601)	(6,273)		(6,874)
Net Book Value				
At 31 March 2021	**104,161**	**2,415**	**283**	**106,859**
At 31 March 2020	**108,814**	**3,369**	**5**	**112,188**

Other Plant, Property and Equipment assets - Surplus Assets
Four assets valued at £2.558m (31 March 2021 Three assets £1.057m).

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

Assets Held for Sale
None held - (31 March 2021 one asset £0.313m).

Capital Commitments
At 31 March 2022, the Council was committed to the following significant capital works contracts (£0.04m in 2020):

Capital scheme	**£000**
Horsham Skate Park	250
Rural car park – Storrington Mill Lane	189
Total	**439**

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

	Other Land & Buildings £000	**Vehicles, Plant, Furniture & Equipment £000**	**Total £000**
Carried at historical cost		1,788	1,788
Valued at fair value as at			
31 March 2022	86,558		86,558
31 March 2021	4,664		4,664
31 March 2019	12,724		12,724
31 March 2018	5,863		5,863
	109,809	**1,788**	**111,597**

13 INVESTMENT PROPERTIES

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

	2020/21 £000	**2021/22 £000**
Income from investment property	(4,054)	(4,039)
Direct operating expenses arising from investment property	350	570
Net (gains)/losses from fair value adjustments	(2,067)	(1,840)
Net (gain)/loss	**(5,771)**	**(5,309)**

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

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

	2020/21 £000	**2021/22 £000**
Balance at start of year	54,466	57,996
Additions	1,463	131
Net gains/(losses) from fair value adjustments	2,067	1,844
Disposals	0	(225)
Balance at end of the year	**57,996**	**59,746**

14 FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants do not give rise to financial instruments. Financial instruments are recognised in the Balance Sheet when the authority becomes a party to the contractual provisions of the instrument.

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

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

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

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

Fair value through other comprehensive income comprises equity investments of £2m in the listed Fundamentum REIT and £0.23m in the equity of the Council's subsidiary Horsham District Homes. Both these investments are subject to an irrevocable election to present changes in the fair value of investments in equity instruments through other comprehensive income rather than through profit and loss. This is dependent on these investments being held for strategic rather than trading purposes.

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

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

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

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

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

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

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

The Council's financial liabilities held during the year are measured at amortised cost and comprise trade payables for goodsand services received.

Financial Instruments - Balances

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

	Long Term		Short Term	
Financial Liabilities	31.03.2021	**31.03.2022**	31.03.2021	**31.03.2022**
	£000	**£000**	£000	**£000**
Loans at amortised cost:				
- PWLB borrowing	0	0	0	0
Total Borrowing	**0**	**0**	**0**	**0**
Liabilities at amortised cost:				
- Trade payables	0	0	(17,940)	(10,708)
Included in Creditors *	**0**	**0**	**(17,940)**	**(10,708)**
Total Financial Liabilities	**0**	**0**	**(17,940)**	**(10,708)**

* The various liabilities lines on the Balance Sheet include **£18.0m** (2021: £9.7m) short-term creditors that do not meet the definition of a financial liability as they relate to non-exchange transactions.

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

	Long Term		Short Term	
Financial Assets	31.03.2021	**31.03.2022**	31.03.2021	**31.03.2022**
	£000	**£000**	£000	**£000**
At amortised cost:				
- Principal incl accruals	0	2,500	4,001	27,010
At fair value through profit & loss:				
- Fair value	22,977	23,865	9,413	13,269
Fair value through other comp. income				
- Fair value	2,186	2,286		
Total Investments	**25,162**	**28,651**	**13,414**	**40,278**
At amortised cost:				
- Principal incl accruals	**0**	0	**2,982**	**4,446**
At fair value through profit & loss:				
- Fair value	0	0	17,999	10,499
Total Cash and Cash Equivalents	**0**	**0**	**20,981**	**14,945**
At amortised cost:				
- Receivables			3,993	3,821
- Loans made for service purposes	214	214		
- Loss allowance	(6)	(6)	(394)	(384)
Included in Debtors **	**208**	**208**	**3,599**	**3,437**
Total Financial Assets	**25,370**	**28,859**	**37,995**	**58,660**

* The debtors lines on the Balance Sheet include £3.3m (2021: £3.5m) short-term debtors that do not meet the definition of a financial asset as they relate to non-exchange transactions.

Financial Instruments - Gains and Losses

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

	Financial Assets Amortised Cost	Fair Value through OCI	Fair Value through Profit & Loss	2021/22 Total	2020/21 Total
	£000	£000	£000	£000	£000
Interest expense				0	0
Impairment Loss				0	0
Changes in fair value				0	0
Interest payable and similar charges	**0**	**0**	**0**	**0**	**0**
Interest income	(30)			(30)	(28)
Dividend income		**(46)**	(865)	(911)	(831)
Gains from changes in fair value			(890)	(890)	(2,339)
Impairment loss reversals	(11)			(11)	(23)
Interest and investment income	**(41)**	**(46)**	**(1,755)**	**(1.842)**	**(3,220)**
Net impact on surplus/deficit on provision of services	**(41)**	**(46)**	**(1,755)**	**(1,842)**	**(3,220)**
Gains on revaluation				0	**(100)**
Losses on revaluation				0	0
Impact on other comprehensive income	**0**	**0**	**0**	**0**	**(100)**
Net (Gain)/Loss for Year	**(41)**	**(46)**	**(1,755)**	**(1,842)**	**(3,320)**

Financial Instruments - Fair Values

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

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair valueshave been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2022, using the following methods and assumptions:

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

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

Financial Liabilities

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

Financial assets

For financial assets the balance sheet figure is equivalent to the fair value. In the fair value hierarchy the levels for the instruments which are subject to a valuation technique (this excludes short term trade payables and receivables) are shown below. The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

Category	IFRS9	Fair value level	31.03.2021	31.03.2022
Bond & Equity funds	FVPL	1	18,081	18,281
Property Fund	FVPL	1	4,750	5,584
REIT	FVOCI	2	2,060	2,060
Money market funds	FVPL	1	27,413	23,769

The Council holds £0.23m equity in its Housing subsidiary with the value of the price paid for equity as the amountis not material. Should the value become material a recognised valuation process would be followed.

(E) Financial Instruments - Risks

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

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

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

The main risks covered are:

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

Credit Risk: Treasury Investments

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

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

The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating.

Credit Rating	31.03.21 Long-term £000	31.03.21 Short Term £000	31.03.22 Long-term £000	31.03.22 Short Term £000
AA-	0	0	0	18,000
A	0	3,590	0	4,106
Unrated local authorities	0	4,000	2,500	9,000
Total	**0**	**7,590**	**2,500**	**31,106**

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

Credit Risk: Trade and Lease Receivables

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

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

	31.03.2021 Receivables	31.03.2022 Receivables
	£000	**£000**
Neither past due nor impaired	1,530	2,943
Past due < 3 months	310	565
Past due 3-6 months	396	107
Past due 6-12 months	320	245
Past due 12+ months	357	533
TOTAL RECEIVABLES	**2,913**	**4,393**

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

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

Credit Risk: Loans, Financial Guarantees and Loan Commitments

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

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

Borrower	Exposure type	Balance Sheet 31.03.2021 £000	Risk exposure 31.03.2021 £000	Balance Sheet 31.03.2022 £000	Risk exposure 31.03.2022 £000
Henfield leisure centre	Loans at market rates	208	208	208	208

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

Loss allowances on loans for service purposes have been assessed with reference to expected failures of comparable organisations. They are determined to have suffered a significant increase in credit risk where there is significant increased risk that the business model of the organisation may not be able to sustain interest payments and they are determined to be credit-impaired where there it is deemed probable the organisation's business model is not sustainable. Loans are written off to the Surplus or Deficit on the Provision of Services when they are deemed irrecoverable, but steps are still taken to collect sums owing when it is judged that the borrower still has the potential to repay. Although the Council has granted an extension to the Henfield Leisure Centre loan repayment it judges that this is a short term issue caused by the pandemic which does not materially affect the long term business model.

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

Market Risks: Interest Rate Risk
The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- investments at variable rates – the interest income will rise
- investments at fixed rates – the fair value of the assets will fall.

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

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

	31.03.2021 £000	31.03.2022 £000
Increase in interest receivable on variable rate investments	(234)	(319)
Decrease in fair value of investments held at FVPL	390	413
Impact on Surplus or Deficit on the Provision of Services	**157**	**94**
Decrease in fair value of investments held at FVOCI	0	0
Impact on Comprehensive Income and Expenditure	**157**	**94**
Decrease in fair value of loans and investments at amortised cost *	38	178
Decrease in fair value of fixed rate borrowing *	0	0

*No impact on Comprehensive Income and Expenditure.
The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

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

The Council's investment in pooled funds including property is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property fund pooled fund investments and REITs of £7m and £5m respectively. A 5% fall in commercial property prices at 31 March 2022 would result in a £0.29m (2021: £0.25m) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account and a £0.1m (2021: £0.1m) charge to Other Comprehensive Income and Expenditure.

The Council's investment in pooled equity funds is subject to the risk of falling share prices. This risk is limited by the Council's maximum exposure to pooled funds that include equity investments of £18m. A 5% fall in share prices at 31 March 2022 would result in a £0.40m (2021: £0.35m) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

15 CASH AND CASH EQUIVALENTS

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

	31.03.2021 £000	31.03.2022 £000
Cash held by Council	1	2
Money market Funds	17,999	10,499
Short-term deposits	2,735	4,106
Cash in transit	247	340
Total Cash and Cash Equivalents	**20,981**	**14,945**

16 SHORT-TERM DEBTORS

	31.03.2021 £000	31.03.2022 £000
Sundry Debtors	4,002	3,908
Central government bodies	70	362
Payments in advance	537	419
Council Tax debtors	569	396
WSCC NNDR Debtor	673	0
NNDR Debtors	941	904
Housing benefit overpayments	2,567	2,236
Sub-total	9,359	8,226
Allowance for doubtful debts	(3,497)	(3,088)
Total debtors after allowance for doubtful debts	**5,862**	**5,137**

17 SHORT-TERM CREDITORS

	31.03.2021 £000	31.03.2022 £000
Sundry Creditors	(11,734)	(9,073)
Prepayment of NNDR	(502)	(565)
Prepayment of Council Tax	(362)	(380)
WSCC Council Tax creditors	(1,163)	(2,473)
SPA Council Tax creditors	(167)	(356)
Central Government	(5,503)	(16,818)
WSCC NNDR Creditors	0	(1,129)
Total	**(19,431)**	**(30,794)**

Included within Central Government is £5.6m funding for the 2022/23 council tax energy rebate scheme and £3.1m for NNDR Covid Additional Relief Fund.

18 PROVISIONS AND OTHER LONG-TERM LIABILITIES

	Provision for NNDR appeals £000	Provision for Accumulated Absences £000	Total £000
Balance at 1 April 2020	**(1,121)**	**(158)**	**(1,278)**
Additional provisions made in 2020/21	(144)	(236)	(380)
Amounts used in 2020/21	382	0	382
Change in collection fund share	(1,121)	0	(1,121)
Balance at 31 March 2021	**(2,004)**	(394)	**(2,397)**
Additional provisions made in 2021/22	(109)	0	(109)
Amounts used in 2021/22	495	175	670
Balance at 31 March 2022	(1,617)	(219)	(1,836)

Provision for NNDR Appeals
Estimate of rates potentially overcharged to businesses repayable on appeal.

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

Other long term liabilities:
S106 Contributions are developer contributions that are expected to be paid to other agencies.
Capital Grants & Receipts in Advance are developer contributions that are expected to be used by theCouncil but still have conditions that mean they are potentially refundable.
The movements in both are show below:

	S106 Contributions		Capital Grants Rec'd in Advance	
	31.03.2021 £000	31.03.2022 £000	31.03.2021 £000	31.03.2022 £000
Opening balance	**(12,106)**	**(13,837)**	**(12,785)**	**(12,122)**
Grants/Contributions in	(1,948)	(2,936)	(634)	(802)
Grants/Contributions out	217	7,172	1,297	1,577
Closing balance	(13,837)	**(9,601)**	(12,122)	**(11,347)**

19 USABLE RESERVES

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet GeneralFund expenditure in 2021/2022

Useable Revenue Reserves	Balance at 31.03.20 £000	Income / Expenditure 2020/21 £000	Transfer to / from other reserves 2020/21 £000	Balance at 31.03.21 £000	Income / Expenditure 2021/22 £000	Transfer to / from other reserves 2021/22 £000	Balance at 31.03.22 £000
General Fund Balance	**(15,662)**	(18,433)	9,199	**(24,896)**	(4,564)	5,277	**(24,183)**
New Homes Reserve	(4,671)	0	(4,831)	(9,502)	0	(3,083)	(12,585)
Health and Wellbeing	(308)	0	0	(308)	0	(27)	(335)
Council tax localism	(293)	0	0	(293)	0	0	(293)
Neighbourhood Planning Grant	(278)	0	11	(268)	0	0	(268)
s106 Reserves	(802)	26	0	(776)	(142)	0	(918)
NNDR Provision	(1,435)	0	0	(1,435)	0	(2,796)	(4,231)
Homelessness Prevention	(77)	0	(64)	(142)	0	(95)	(237)
Revenues & Benefits	(318)	0	(300)	(618)	0	(302)	(920)
Covid-19 Discretionary fund	(36)		(2,779)	(2,815)	356	1,699	(760)
Transformation fund	(377)	0	(12)	(389)	0	(4)	(393)
HDC Green Reserve	0	0	(695)	(695)	0	129	(566)
Leisure Reserve	0	0	(212)	(212)	0	212	0
Journey to Work	(211)	0	(78)	(289)	0	(75)	(364)
Covid 19 Outbreak Management Fund	0	0	0	0	0	(446)	(446)
IT Security	0	0	0	0	0	(100)	(100)
Community Fund	0	0	0	0	0	(250)	(250)
Other	(721)	105	(240)	(856)	0	(139)	(995)
Other Earmarked Reserves	**(9,528)**	131	(9,199)	**(18,596)**	214	(6,269)	**(23,659)**
Sub-total	**(25,190)**			**(43,492)**			**(47,842)**
Useable Capital Reserves							
Capital Receipts Reserve	**(2,088)**	366		**(1,722)**	89		**(1,633)**
Capital Grants unapplied	**(10,646)**	(2,519)		**(13,165)**	(5,255)		**(18,420)**
Total Useable Revenue Reserves	**(37,924)**			**(58,379)**			**(67,894)**

The government continued to grant business rate relief to retail, hospitality and leisure services during 2021/22, and compensate Councils for these reliefs with a Section 31 grant. These reliefs must be shown as a deficit on the Council's share of income within the Collection Fund Adjustment Account, while the grant income must be shown within the Council's General Fund. In 2021/22, £7.95m has been transferred from the Collection Fund Adjustment Account to the General Fund, this was funded from the Section 31 grant held in the General Fund in 2020/21.

20 UNUSABLE RESERVES

Revaluation Reserve

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

- revalued downwards or impaired and the gains arelost,
- 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 wascreated. Accumulated gains arising before that date are consolidated into the Capital Adjustment Account.

	31.03.2021	31.03.2022
	£000	£000
Balance at 1 April	(35,832)	(34,194)
Adjustment to Capital AdjustmentAccount *		2,921
(Upward)/downward revaluation of assets	(5,787)	(7,638)
Downward revaluation of assets and impairmentlosses not charged to the Surplus/deficit on the Provision of Services	6,567	1,679
Difference between fair value depreciation andhistorical cost depreciation	562	491
Amount written off to the Capital AdjustmentAccount	296	315
Balance at 31 March	**(34,194)**	**(36,426)**

* The 2.9m adjustment between revaluation reserve and capital adjustment account is a technical adjustment that does not affect the asset values but reflects a change in the historic recognition of a set of assets that had not formerly held a value. These assets were originally recognised with the contra credit being the revaluation reserve whereas after a review of the accounting treatment the contra credit is now to the capital adjustment account.`

Pension Reserve

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

	2020/21	2021/22
	£000	**£000**
Balance at 1 April	(25,335)	(31,675)
Actuarial gains or losses on pensions assets and liabilities	(6,705)	(7,763)
Reversal of items relating to retirement benefits debited or credited to the surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	3,850	5,760
Employers pensions contributions and direct payments to pensioners payable in the year	(2,816)	(2,481)
Balance at 31 March	**(31,006)**	**(36,159)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).

The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses in investment properties and revaluation gains and losses accumulated on property, plant and equipment before 1 April 2007, the date the Revaluation Reserve was created.

	2020/21	2021/22
Balance at 1 April	(98,354)	(98,336)
Adjustment relating to Revaluation Reserve		(2,921)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	2,692	2,384
Depreciation of intangible assets	11	8
Revaluation gains / losses on Property, Plant and Equipment	1,996	(1,269)
Revenue expenditure funded from capital under statute	2,521	3,043
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	202	254
Movements in the market value of Investment Property	(2,067)	(1,844)
Adjusting amounts through revaluation reserve	(562)	(491)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(1,119)	(1,343)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(2,360)	(2,264)
Grants from the Capital Grants Unapplied Account	(212)	(1,047)
Use of earmarked revenue reserves for the financing of capital investment	(204)	(51)
Statutory provision for the financing of capital investment charged against the General Fund	(880)	(918)
Balance at 31 March	(98,336)	(104,795)

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.

	2020/21 £000	2021/22 £000
Balance at 1 April - Council Tax	**(85)**	**72**
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	157	(144)
Balance at 31 March	72	**(72)**
Balance at 1 April – NNDR	**873**	**7,802**
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	6,929	(5,154)
Balance at 31 March	7,802	**2,648**
Total	7,874	**2,576**

21 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

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

	2020/21 £000	2021/22 £000
Depreciation and Impairments	(2,703)	(2,392)
Impairments	70	3,113
Pensions Liability	(1,034)	(3,279)
(Increase)/decrease in debtors	2,580	(3,561)
(Increase)/decrease in creditors	(3,314)	9,583
Movement in provisions	(7,026)	5,399
(Increase)/decrease in inventories	3	68
Other non-cash adjustments	(2,306)	(889)
Total	**(13,730)**	**8,042**

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

	2020/21 £000	2021/22 £000
Capital grants credited to the surplus or deficit on the provision of services	5,121	8,532
Proceeds from the sale of non-current assets	263	684
Council Tax and NDR adjustment	182	183
Total	**5,566**	**9,399**

c) Interest received, interest paid and dividends received

	2020/21 £000	2021/22 £000
Interest received	(867)	(1,216)
Total	**(867)**	**(1,216)**

22 EXTERNAL AUDIT COSTS

	2020/21 £000	2021/22 £000
Fees payable with regard to external audit services carried out by the appointed auditors for the year	39	39
Fees payable for the certification of grant claims and returns	43	49
Fees payable in respect of other services or relating to previous years	5	(18)
Total	**88**	**70**

The cost for the main audit is based on the indicative scale fee. It does not include any fee variation for additional audit work that may be required to complete the audit until the amounts have been approved by the Public Section Audit Appointments (PSAA).

Fees payable for the certification of grant claims and returns are effectively those of the previous year's audit. The £49k spent in 2021/22 is for the 2019/20 Housing Benefit audit, that was certified in February 2021, as well a further payment relating to the 2020/21 Housing Benefits audit.

Fees payable in respect of other services relate to additional work on the 2019/20 and 2020/21 main audits that were accrued but the actual spend was less than the amount accrued.

23 MEMBERS ALLOWANCES

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

	2020/21 £000	2021/22 £000
Allowances	346	359
Expenses	3	11
Total	**349**	**370**

NB: Officer travel costs dropped significantly as a result of the Pandemic during 2020-21, whilst there was an increase during 2021-22 this is still below pre-pandemic costs of £16k in 2019-20

24 LEASES

Operating Leases

Council as a Lessee
The Council leases its main office and a small number of cars for £0.25m

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

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

	Receivable as Lessor		Payable as Lessee	
	31.03.2021	31.03.2022	31.03.2021	31.03.2022
	£000	£000	£000	£000
Not later than one year	3,260	3,186	230	247
Later than one year and not later than five years	8,391	8,288	728	551
Later than five years	8,126	7,195		
	19,777	18,669	958	798

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as rent reviews. The Council received contingent rent of £256,000 in 2021/22 (£29,000 in 20/21).

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

25 SENIOR OFFICER'S REMUNERATION

Corporate Post Holder Title	Total Remuneration excluding pension	Employer Pension Contributions	Total Remuneration including pension
2021/22	£	£	£
Chief Executive	129,362	25,179	154,541
Director of Community Services	102,611	19,241	121,852
Director of Corporate Resources (Section 151 Officer)	106,181	19,241	125,422
Director of Place	102,715	19,241	121,956
Head of Legal and Democratic Services (Monitoring Officer)	83,806	15,228	99,034
2020/21	£	£	£
Chief Executive	121,024	24,053	145,077
Director of Community Services	100,533	19,955	120,488
Director of Corporate Resources (Section 151 Officer)	100,865	19,955	120,820
Director of Place	100,533	19,955	120,488
Head of Legal and Democratic Services (Monitoring Officer)	78,769	15,754	94,523

The Strategic Leadership Team is made up of the Chief Executive and the three strategic Directors. The remuneration details of these officers and the Monitoring Officer are included in the table above. The increase on costs from the previous year is due to the inclusion of payments relating to the Police & Crime Commissioner & Local By-elections held in May 2021.

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

Remuneration Band	Number of Employees 2020/21	Number of Employees 2021/22
£50,000 - £54,999	13	15
£55,000 - £59,999	4	1
£60,000 - £64,999	6	7
£65,000 - £69,999	0	0
£70,000 - £74,999	1	2
£75,000 - £79,999	1	0
£80,000 - £84,999	2	1
£85,000 - £89,999	0	0
£90,000 - £94,999	0	0
£95,000 - £99,999	0	2
£100,000 - £104,999	4	1
£105,000 - £109,999	0	0
£110,000 - £114,999	0	0
£115,000 - £119,999	1	0
£120,000 - £124,999	1	0
£125,000 - £129,999	0	1
Total number	**33**	**30**

26 EXIT PACKAGES

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

Exit package cost band	Number of Compulsory redundancies		Number of other agreed departures		Total number of exit packages by exit band		Total cost of exit packages in each band	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21 £000	2021/22 £000
£0 - £20,000	16	3	4	6	20	9	111	60
£20,001 - £40,000	4	2	0	0	4	2	104	50
£40,001 - £60,000	2	0	0	0	2	0	102	0
£60,001 - £80,000	3	0	0	0	3	0	217	0
£80,001 - £100,000	1	0	0	0	1	0	87	0
£100,001 - £150,000	2	0	0	0	2	0	244	0
Total	**28**	**5**	**4**	**6**	**32**	**11**	**864**	**110**
Provision	0	**0**	0	**0**	0	**0**	0	**0**
Total	**28**	**5**	**4**	**6**	**32**	**11**	**864**	**110**

27 TERMINATION BENEFITS

During 2021/22 the Council terminated 11 posts at a total cost of £110k which was made up of redundancy payments of £49k, other termination costs of £32k and pension strain costs of £29k.

28 RELATED PARTIES

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

Central Government - has effective control over the general operations of the Council, it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grant receipts outstanding at 31 March 2022 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 2021/22 is shown in note 23.

Senior Officers - are defined as the Chief Executive together with the Directors which together make up the Senior Leadership Team. These Officers have the responsibility of managing the Council and have power to direct or control the major activities of the Council, in particular those involving the expenditure of money. Details of senior officer remuneration are shown in note 25. There were no related party disclosures by senior officers in 2021/22.

Building Control

Horsham District Council provides the Building Control service for Crawley Borough Council. Crawley B.C. discharged this function under an agreement pursuant to sections 101 and 111 of the Local Government Act 1972, section 3 of theLocal Government Act 1999 and the Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2000/2851. The total contribution paid by Crawley B.C. for 2021/22 amounted to £294k (£311k in 2020/21) and £87k (£70k in 2020/21) was outstanding as at 31 March 2022.

Wholly owned entities

On 21 March 2019, Cabinet approved the creation of two companies for the purpose of providing affordable rental housing in the District. The companies were incorporated in 2019, the Council is the sole shareholder. The transactions with the housing companies during 2021/22 are summarised in the table below.

	Horsham District Homes	Horsham District Homes (Holdings)	Disclosed within Note
	£000	**£000**	
Equity paid	100		Note 14
Grant income paid		447	
Rental income collected		(9)	
Services provided	12	22	Note 16

The Council has not prepared group accounts for 2021/22 as the value of transactions are considered immaterial. The accounts for the companies are audited by independent auditors and filed with Companies House.

29 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2020/21	2021/22
	£000	£000
Opening Capital Financing Requirement	33,862	**34,568**
Capital Investment		
Property, Plant & Equipment	1,371	1,431
Investment Properties	1,464	131
Equity in subsidiary	125	100
Revenue Expenditure Funded from Capital Under Statute	2,521	3,044
Sources of finance		
Capital receipts	(1,119)	(1,343)
Government grants and other contributions	(2,572)	(3,276)
Revenue contributions	(204)	(86)
Minimum Revenue Provision	(880)	(918)
Closing Capital Financing Requirement	34,568	**33,650**
Explanation of movements in year		
Increase in underlying need to borrowing	1,586	0
Minimum Revenue Provision	(880)	(918)
Increase / (decrease) in Capital Financing Requirement	706	**(918)**

30 DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

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

In addition, the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases and early access pension costs. In 2021/22 these amounted to £93k (£94k 2020/21) representing 1% of pensionable pay (1% in 2020/21).

Transactions Relating to Post-employment Benefits

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

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

Comprehensive Income and Expenditure Statement	2020/21	2021/22
	£000	£000
Cost of Services		
- current service cost	(4,211)	(6,328)
- past service costs	(221)	(26)
Total Service Cost	(4,432)	**(6,354)**
Financing and Investment Income and Expenditure		
Interest income on planned assets	3,945	4,314
Interest cost on defined benefit obligation	(3,363)	(3,720)
Total Net Interest	582	**594**
Total Post Employment Benefit Charged to the Surplus or deficit on the provision of services	(3,850)	**(5,760)**

Re-measurements of the Net Defined Liability

Actuarial gains arising from changes in demographic assumptions	(260)	1,112
Actuarial gains / (losses) arising from changes in financial assumptions	(36,306)	11,922
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	1,562	(372)
Return on assets excluding amounts included in net interest	41,709	(4,230)
Total re-measurements recognised in other comprehensive income	**6,705**	**8,432**
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**2,855**	**2,672**
Movement in Reserves Statement		
Reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance	**(3,850)**	**(5,760)**
Actual amounts charged to the General fund balance for pensions in the year		
Employers contributions payable to the scheme	2,816	2,481

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	2020/21 £000	2021/22 £000
Present value of liabilities - Funded	(183,566)	(177,097)
Present value of liabilities - Un funded	(1,362)	(1,268)
Fair value of plan assets	216,603	214,524
Net asset (liability arising from defined benefit obligation	31,675	36,159

The surplus on the balance sheet position increased in 2021/22 by £4.4m. In simple terms, this is a result ofthe return on assets being higher than the decrease in liabilities. During the accounting period investment returns have been greater than expected, resulting in a positive return on assets whilst the decrease in liabilities has been caused by changes in financial assumptions of inflation, salaries and discounts.

Funded Liabilities - LGPS

	2020/21	2021/22
Reconciliation of present value of the scheme liabilities:	**£000**	**£000**
Balance at 1 April	(146,043)	(184,928)
Current service cost	(4,211)	(6,328)
Interest cost	(3,363)	(3,720)
Contributions by scheme participants	(874)	(873)
Actuarial gains and losses	(35,004)	12,662
Benefits paid	4,788	4,848
Past service costs	(221)	(26)
Balance at 31 March	**(184,928)**	**(178,365)**
Reconciliation of fair value of the scheme assets:		
Balance at 1 April	171,378	215,934
Interest income on planned assets	3,945	4,314
Return on planned assets (excluding amounts in net interest)	41,709	(4,230)
Employer contributions	2,816	2,481
Contributions by scheme participants	874	873
Benefits paid	(4,788)	(4,848)
Balance at 31 March	**215,934**	**214,524**

LGPS Assets comprised:

	2021		2022	
	£000	% of assets	£000	%of assets
Equity Securities:				
Consumer	22,432.7	10.4%	0.0	0.0%
Manufacturing	12,605.5	5.8%	0.0	0.0%
Energy & Utilities	3307.6	1.5%	0.0	0.0%
Financial Institutions	19,563.7	9.1%	0.0	0.0%
Health & Care	14,440.6	6.7%	0.0	0.0%
Information Technology	29,967.4	13.9%	0.0	0.0%
Other	7,155.8	3.3%	0.0	0.0%
Debt Securities:				
UK Government	2,742.2	1.3%	0.0	0.0%
Private Equity:				
All	3,440.3	1.6%	4,383.5	2.0%
Real Estate:				
UK Property	14,652.8	6.8%	20,935.5	9.8%
Investment Funds & Unit Trusts:				
Equities	0.0	0.0%	100,382.4	46.8%
Bonds	72,664.9	33.7%	74,151.5	34.6%
Infrastructure	0.0	0.0%	9,221.7	
Other	3,387.1	1.6%	4,675.4	4.3%
Cash & cash Equivalents: All	9,573.5	4.4%	774.0	0.4%
	215,934	**100%**	**214,524**	**100%**

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

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The current position is a surplus of £36.2m (£31.6m surplus at 31 March 2021) which has an impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £243.8m.

Statutory arrangements for funding mean that the financial position remains healthy as contributions continue to be made over the working life of current employees. The total contributions expected by Hymans Robertson LLP, the scheme's actuaries, that are to be made to the Local Government Pension scheme by the Council in the year to 31 March 2023 is £2.24m (£2.33m at 31 March 2022).

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 dependent on assumptions about mortality rates, salary levels, etc. The pension scheme is assessed by Hymans Robertson for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary have been:

		2020/21	2021/22
Long term expected rate of return on assets in the scheme: Mortality assumptions:			
Longevity at 65 for current pensioners:	Men	22.1	21.9
	Women	24.4	24.2
Longevity at 65 for future pensioners:	Men	23.1	22.8
	Women	26.1	25.9

Rate of inflation / pension	2.9%	3.2%
Rate of increase in salaries	3.4%	3.7%
Rate of discounting scheme liabilities	2.0%	2.7%

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

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

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

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

31 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

A former employee has redirected a claim for personal injury submitted to the Council earlier in the year, to his subsequent employer. Legal advice is that the matter does not appear to be our responsibility, but we are reviewing documentation to confirm this.

32 GOING CONCERN

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

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

Current & historical financial position: The Council made a £2.1m operational surplus in the period ending 31 March 2022, partly because it took early action in November 2020 with a sizable restructure that reduced expenditure by around £1.4m.

Impact of Covid: The 2021/22 budget was set in February 2021 in lockdown and thankfully was more cautious than events panned out. The pandemic though may have changed some areas of income generation permanently, such as the reduction in from car parking season tickets, currently £0.6m lower than pre-pandemic due to the change to hybrid working. There have been other reductions in income across some of the commercial property, leisure, planning and building control. There has also been significant additional expenditure supporting our leisure service contracts in 2021/22 as there was in 2020/21, although a return to management fee income is expected in 2022/23.

All service areas reviewed their budgets during the setting of the 2022/23 budget and identified areas where they could carefully manage expenditure in the year, and also reflected the anticipated semi-permanency of some reductions in income. Therefore, another prudent budget was set, albeit one that is likely to be stretched by inflation that continues to rise far beyond the levels anticipated in January 2022. From the £2.1m outturn surplus in 2021/22, £1m has been set aside in an earmarked reserve to be used to mitigate inflation in salaries and also general price rises in goods and services that the Council uses in 2022/23. The overspend is in the context of £24.2m currently in the General Fund reserve. Although not desirable, this reserve could be used to smooth out any overspend in the short term, although this is clearly not sustainable indefinitely. The size of the challenge in the medium-term is highly uncertain, due to the unknown timing, scale and impact of any Fair Funding Review, changes to business rates or the introduction of mandatory food waste collection. Should all three collide at once in 2024/25, it creates an estimated budget gap of £1.7m a year from 2025/26.

Cash position: The Council had a cash balance of £10.8m at the end of May 2022, and £13.4m in money market funds available in two to three days, and a further £17m in longer term non-property investments, also available within a few days. Whilst uncertainty on income remains, the Council remains confident in its ability to maintain sufficient cash for its services throughout the medium term. This is based on our review of the cashflow forecast which covers a period twelve months beyond the signing of the accounts. For this, we have used the statutory accounts deadline of 30 November. The Council is of course also able to borrow short term for revenue purposes if ever needed and in that time-period, a further £29.5m that is locked away with different end dates to try to maximise the interest return would also become free from the fixed investment periods.

In a 'stressed' case scenario whereby income is constrained further in the event of a new Covid-19 variant, and income recovering only slowly, the Council has sufficient levels of reserves and investments that it would not run out of cash.

The Council has set a modest £12.0m capital programme in 2022/23, that will further protect the levels of cash and useable reserves. The programme focuses on projects that produce a positive financial revenue return as well as those with health and safety requirements.

Conclusion:

The Council concludes that it is appropriate to prepare the financial statements on a going concern basis, and that the Council will continue as a going concern, based on the review of the forecasted reserve and cash position 12 months from the signing of the accounts.

COLLECTION FUND

2021-22 Business Rates £	2021-22 Council Tax £	2021-22 Total £		2020-21 Business Rates £	2020-21 Council Tax £	2020-21 Total £
			INCOME			
	(124,239)	(124,239)	Council Tax Receivable		(116,391)	(116,391)
(36,062)		(36,062)	Business Rates Receivable	(23,990)		(23,990)
0	0	0		0	0	0
0	0	0	**Transfers from General Fund**	0	0	0
	(434)	(434)	Council Tax Benefits		(563)	(563)
	(1)	(1)	Transitional Relief		(14)	(14)
90		90	Transitional Protection	(467)		(467)
(35,972)	(124,675)	(160,647)	**Total Income**	(24,457)	(116,969)	(141,425)
			EXPENDITURE			
			Apportionment of Previous Year Surplus/(deficit)			
(7,897)	13	(7,884)	Horsham District Council	(662)	53	(608)
(2,505)	82	(2,423)	West Sussex County Council	885	348	1,233
0	11	11	Sussex Police Authority	0	48	48
(9,868)	0	(9,868)	Central Government	(827)	0	(827)
(20,270)	106	(20,164)		(604)	449	(154)
			Precepts, Demands and Shares			
17,478	14,191	31,669	Horsham District Council	17,455	13,788	31,243
4,370	95,339	99,709	West Sussex County Council	4,364	90,682	95,046
0	13,564	13,564	Sussex Police Authority	0	12,600	12,600
21,848		21,848	Central Government	21,818		21,818
43,695	123,094	166,790		43,637	117,070	160,607
			Charges to Collection Fund			
0	250	250	Write offs of uncollectable amounts	360	139	499
(175)	(13)	(188)	Increase/(Decrease) in Bad Debt Provision	487	616	1,103
(966)		(966)	Increase/(Decrease) in Provision for Appeals	(955)		(955)
184		184	Cost of Collection	181		181
91	0	91	Disregarded Amounts	91	0	91
(868)	237	(631)		163	756	919
22,557	123,437	145,995	**Total Expenditure**	43,196	118,275	161,472
(13,415)	(1,237)	(14,652)	(Surplus) / Deficit arising during the Year	18,740	1,307	20,046
20,409	613	21,021	(Surplus) / Deficit bought forward 1st April	1,669	(694)	975
6,994	**(625)**	**6,370**	**(Surplus) / Deficit carried forward 31st March**	**20,409**	**613**	**21,021**

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	978
B	40,001-52,000	7/9	3,189
C	52,001-68,000	8/9	9,567
D	68,001-88,000	1	12,075
E	88,001-120,000	11/9	12,462
F	120,001-160,000	13/9	11,162
G	160,001-320,000	15/9	12,183
H	over 320,000	2	1,517
		COUNCIL TAX BASE	63,134

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

2 INCOME FROM BUSINESS RATES

Under the revised arrangements for uniform business rates, the Council collects Non-Domestic Rates for its area which are based on local rateable values multiplied by a uniform rate. The total Non-Domestic Rateable Value at 31 March 2022 was £114.917m and the standard National Non-Domestic Rate multiplier for the year was £0.512

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 2022
	£000
Accumulated (Surplus) / deficit at 31 March 2022	6,370

Apportionment based on 2021/22 precepts and demands:
Deficit / (surplus)

	Business Rates	Council Tax	Total
	£000	£000	£000
Horsham District Council	2,797	(72)	2,725
West Sussex County Council	700	(484)	216
Sussex Police Authority	-	(68)	(68)
Central Government	3,497	-	3,497
	6,994	**625**	**6,370**

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 the billing authority that is used to record local taxes and non-domestic rates collected by the Council, payments to precepting authorities, central government and its own general fund
CIL (COMMUNITY INFRASTRUCTURE LEVY)	Contribution paid by developers to Local Planning Authorities to help deliver infrastructure to support the development of the area.
COUNCIL TAX	A locally determined charge based on property values and levied by a local authority to enable it to provide services
CREDITORS	Individuals and organisations to which the Council owe 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 out the definition of provisions
FAIR VALUE	Amount for which an asset could be sold or liability transferred in an orderly transaction between market participants at the measurement date. In most cases, this is the actual price paid.
FINANCIAL ASSET	A contractual right to receive economic benefits such as cash or right to receive cash or right to favourably exchange a financial asset/liability.
FINANCIAL INSTRUMENT	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments
FINANCIAL LIABILITY	A contractual obligation to transfer economic benefits such as an obligation to pay over cash or unfavourably exchange a financial asset/liability
FINANCIAL REPORTING STANDARDS	Accounting practice recommended for adoption by the accountancy profession e.g. in relation to public reporting, accounting policies etc.
NON-CURRENT ASSET	A tangible asset that yields benefit to a Council and the services it provides for a period of more than one year
GENERAL FUND	The main revenue fund of a billing authority from which day to day spending on services (other than the provision of Council housing services) is met
IAS	International Accounting Standard
MINIMUM REVENUE PROVISION (MRP)	The minimum amount that must be charged to the Council's revenue account to be set aside to pay back debt
NATIONAL NON-DOMESTIC RATES (NNDR)	The charge payable on all business premises, calculated by multiplying the rateable value of the property by the nationally set multiplier
PRECEPT	An amount charged to the collection fund to finance services provided by another authority e.g. County and Parish Councils
PRECEPTING AUTHORITIES	The authorities which are able to raise a precept
PROVISION	A fund to provide for liabilities or losses that are likely to be incurred but the dates and amounts are uncertain
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 the Town and Country Planning Act 1990.
SECTION 31 GRANT	Grants paid to the Council by Central Government under Section 31 of the Local Government Finance Act 2003

ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2022/23

No.	Area for Improvement	Actions	Responsible Officer(s)	Target Date	Status Update
1	Officer governance understanding	Roll out of the e-learning course to all staff with regular access to a computer.	All Heads of Service	30/09/2022	Completed
2	S151 and Monitoring Officer sign off for Cabinet decision reports on Modern.gov (carried forward from 2021/22).	Roll out of tracking and sign off through Modern.gov operates effectively.	Head of Legal & Democratic Services	30/06/2022	Training of Democratic Services staff completed. Four separate training sessions for report writers programmed between 22 November and 12 December.
3	Governance arrangements at Horsham Museum	Implementation of the actions in the review of the Museum report.	Head of Culture and Leisure	31/03/2023	The action plan has been implemented.
4	The Council's management of bullying and harassment	• Development of an anti-bullying and harassment policy. • Working group to lead the implementation of this, led by three heads of service. • Manager's training on EDI (Equality, Diversity and Inclusion).	Head of HR & OD Head of Strategic Planning; Head of Leisure & Culture; and the Head of Economic Development. Head of HR & OD	~~30/09/2022~~ 31/12/2022	Target date extended. Relevant policies are currently being updated. Training & awareness is planned to take place at the Manager's Conference on 14th December. Details will then be disseminated to all staff. EDI workshop, aimed at heads of service, is

					scheduled to take place on 29th November.
5	Procurement understanding in Environmental Health and Licensing	Coaching support from the Procurement Manager.	Procurement Manager	~~30/09/2022~~ 31/03/2023	Target date extended.

Report to Audit Committee

Wednesday 7 December 2022
By the Director of Resources
INFORMATION REPORT

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 Members understand the key risks facing the Council.

Background Papers

Corporate Risk Register

Wards affected: All.

Contact: Dominic Bradley, Director of Resources, 01403 215300.

Background Information

1 Introduction and Background

1.1 The Audit Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.

1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers (see Section 3 below).

2 Relevant Council Policy

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

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

3 Details

3.1 The Senior Leadership Team has reviewed the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix 1).

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

	CRR02 CRR03 CRR06 CRR34 CRR35a	CRR18 CRR19 CRR37		
		CRR01c CRR05 CRR17	CRR01b	

3.3 There are four risks which are currently considered to be high and eight medium risks. The high-risk areas relate to the following:

CRR37	Delay to the local plan preparation due to the requirement of the plan to demonstrate water neutrality, or as a result of significant / unexpected changes to government guidance.
CRR01b	Funding from Government is less generous than assumed in the Medium-Term Financial Strategy (MTFS) from 2023.
CRR18	A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. IT not working due to environmental and economic problems: fire, flood, power cut and issues with the supply chain preventing new infrastructure arriving in a timely manner.
CRR19	Rapidly rising costs from inflation together with ongoing lower levels of income from fees in some areas, and other cost pressures such as increased homelessness; and increased housing benefit claims.

3.4 The risk register in Appendix 1 provides full details of all risks on the "live" register together with details of the control actions and responsible officers.

3.5 All 19 Departmental risk registers have been reviewed and updated.

4 Outcome of consultations

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

5 Other courses of action considered but rejected

5.1 Not applicable.

6 Resource consequences

6.1 There are no financial or staffing consequences as this report is for noting.

7 Legal considerations and implications

7.1 There are no legal consequences as this report is for noting.

8 Risk assessment

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

9 Procurement implications

9.1 There are no procurement implications arising from this report as this report is for noting.

10. Equalities and human rights implications / public sector equality duty

10.1 There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

11 Environmental implications

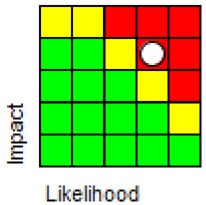
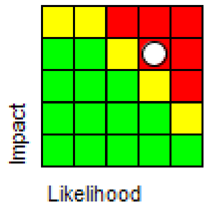
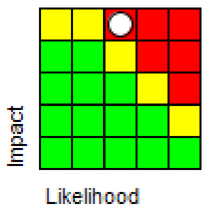
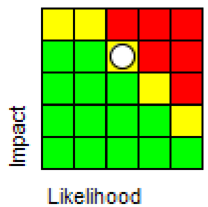
11.1 There are no environmental implications as this report is for noting.

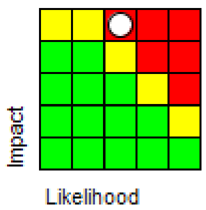
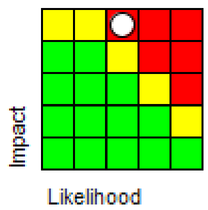
12 Other considerations

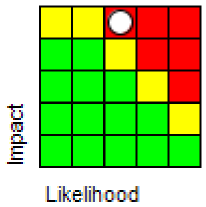
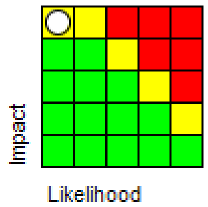
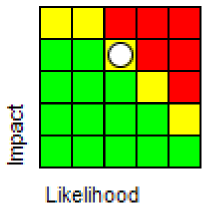
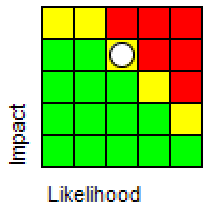
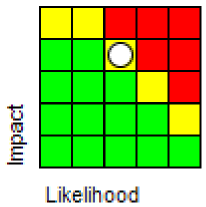
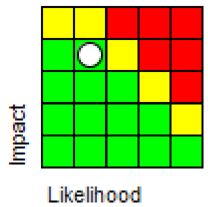
12.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.

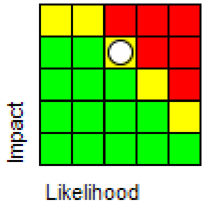
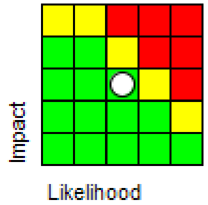
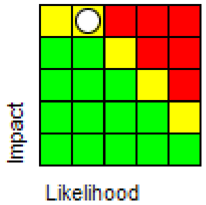
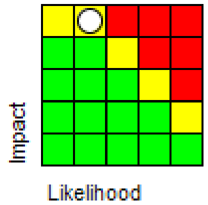
Appendix 1 Corporate Risk Report December 2022
Risks ordered by RAG not numerically

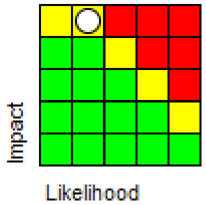
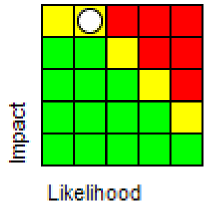
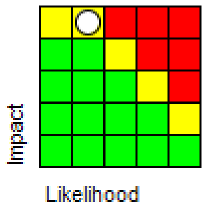
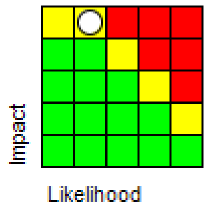
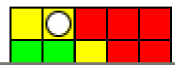
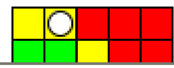
Generated on: 07 November 2022

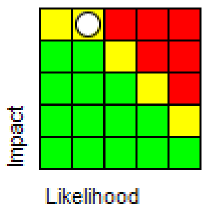
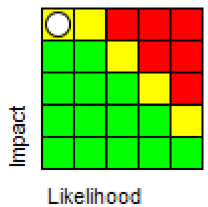
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
CRR01b Financial Cause: The Council is reliant on Central Controlled Government funding (e.g., Business Rates). Risk: (ii) Funding from Government is less generous than assumed in the MTFS from 2023	Reductions in funding Adverse effect on morale Financial Failure to achieve agreed objectives	Dominic Bradley		CRR.01b.1 Continue to keep a watching brief CRR.01b.2 Revisit the MTFS and if necessary 2022/23 budget in year. CRR.01b.3 Evaluate and discuss with Members possible future actions to mitigate loss of income. e.g., Corporate Restructure, investment and infrastructure projects that generate income.	Samantha Wilson Samantha Wilson Dominic Bradley		Government had tentatively indicated a two-year settlement for 2023/24 and 2024/25, which if it went ahead would slightly reduce the risk of changes to business rates and revenue funding through the Fair Funding Review for the time being, albeit temporarily. However, the change in Government and references to 'difficult economic decisions' indicating funding cuts means that we will have to wait until the provisional settlement in December before we have proper insight into the medium term. For 2023/24, Council tax rises, higher investment income from the rise in the Bank of England base rate and some almost inflationary rises to fees and charges should balance the budget. However, a £2m to £3m budget deficit is forecast at the end of the MTFS, if inflation continues at high levels and we implement food waste in Autumn 2024. The gap will only get larger if the funding cuts are sharper than anticipated.
CRR18 Technological Cause: Council services are increasingly reliant on IT systems at a time when there are greater opportunities for malicious attackers to exploit security weaknesses. Risk 1: A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT	Loss of key systems- disruption to Council services. Cost of investigation and recovery of systems. Fraud/theft.	Dominic Bradley		CRR.18.1 Staff and Member Training CRR.18.2 Awareness of current threats CRR.18.3 An effective ICT Service delivery team CRR.18.4 Effective patching and updates to mitigate	Claire Ward / Robert Laban Andrea Curson Andrea Curson Andrea Curson		CRR.18.1 Ongoing, as part of induction for new staff/ Members, and as required. CRR18.2 We are following government advice re heightened Cyber Security Threats. CRR.18.5 We are working towards PSN Accreditation for the year.

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
systems. Risk 2: IT not working due to environmental and economic problems: fire, flood, power cut and issues with the supply chain preventing new infrastructure arriving in a timely manner.	Loss of the integrity of Council Records. Penalties from the ICO. Adverse media coverage.			known vulnerabilities			CRR.18.7 Backups being reviewed and improved, though currently the programme to replace infrastructure is being affected by issues with the supply chain.
				CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)	Andrea Curson		
				CRR.18.6 Effective policies in place which outline security requirements for users of ICT	Andrea Curson		
				CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.	Andrea Curson		
				CRR.18.8 Transferring the risks to the cloud provider	Andrea Curson		
				CRR.18.9 Plan developed, approved internally, and being carried out.	Andrea Curson		
CRR19 Cause: Uncertainty in the UK and World economy. Higher levels of salary and non-salary costs from inflation. Impact on the financial markets and the pound in the wake of Covid-19 and the energy crisis. Likelihood of a deeper depression and slowdown in the property and financial markets. The Government has spoken about a reduction in local government funding. Risk: Rapidly rising costs from inflation. 6% inflation equates to about £1m increase in costs per year, making balancing the budget more difficult. Lower levels of income in planning fees; reduced car parking income; property income and Government funding. Increased costs from higher levels of homelessness and housing benefit claims.	Financial Service Delivery Compliance with Regulations	Dominic Bradley		CRR.19.2 Monitor the external environment	Samantha Wilson		A small surplus budget was set for 2022/23 as a result of a restructure in November 2020 and a better than expected one-year settlement. However, the impact from soaring inflationary price rises is already putting pressure on the forecast in some areas such as fuel and housing services, although a £0.15m surplus is forecast at M6 from rising interest rates, and parking income coming back towards pre-Covid levels. Gross costs in 2023/24 are likely to rise by at least £2m with inflation still at 10% levels. Without significant increases in income at similar inflationary levels, budget shortfalls around £3m a year would be forecast by the end of the medium-term financial period, the other significant cost being £1.3m from food collection, although the timing of this may now push out a further year to Autumn 2025. Pressure is building on homelessness and benefits cases. Cumulative pressure on businesses since 2020 may also increase the risk on their ability to pay all rents.
				CRR.19.3 Monitor internal indicators, particularly costs from inflation, income generation and respond appropriately to adverse trends	Samantha Wilson		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
CRR37 Source: Requirement to adopt an up-to-date Local Plan by end 2023 in accordance with government requirements Risk: Delay to plan preparation due to the requirement of the plan to demonstrate water neutrality, or as a result of significant / unexpected changes to government guidance.	Economic damage to district as a result of limits to development which can take place	Barbara Childs		CRR.37.1 Joint working with partners to develop water neutrality mitigation strategy	Catherine Howe		Governance arrangements for Water Neutrality joint working have been agreed and are operational. Detailed work on overall mitigation strategy is ongoing and scheduled for sign off in the Autumn. However, this requires continued input from all affected local authorities, Natural England, and Southern Water. This is on track. Some supporting organisations currently significantly under resourced. Successful LEP for funding for additional resources to help deliver the strategic solution co-ordinated by WSCC. A recruitment exercise for a permanent member of staff has been agreed.
				CRR.37.2 Keep watching brief on government messaging on planning reforms	Catherine Howe		
CRR01c Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g., Business Rates). <u>Risk:</u> Decrease in Rateable Value due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.	Reductions in funding Financial	Dominic Bradley		CRR.01c.1 Continue to keep a watching brief	Samantha Wilson		Total RV is stable at present, but uncertainty remains in the aftermath of Covid-19 and pending any business rate reform. Any re-baselining is now more likely to be from April 2025. Appeals to the Valuation Office remain high, which could trigger backdated refunds. The appeals provision is approximately £4m, albeit the Council's share is only 40% of this.
				CRR.01c.2 Evaluate and discuss with Members possible actions to mitigate loss of income. e.g., investment and infrastructure projects that generate income.	Samantha Wilson		
CRR05 Governance <u>Cause</u>: Managers are responsible for ensuring that controls to mitigate risks are consistently applied. <u>Risk</u>: Officers are either unaware of expected controls or do not comply with control procedures.	Failure of business objectives Health & Safety Financial Service Delivery Compliance with	Dominic Bradley		CRR.05.1 Officer training	Dominic Bradley		The Annual Governance Statement action plan for 2021/22 completed. This included delivering training for management and staff in this area. Heads of Service, all managers, depot-based managers, Capitol and Parks and Countryside management training has taken place. Stragglers on the annual e-learning refresher programme for 2022/23 are being reminded to complete the following mandatory three courses: • Corporate Governance
				CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Dominic Bradley		
				CRR.05.4 "Cultural compliance" Internal Audits identify service-based issues and help managers to resolve these.	Dominic Bradley		
				CRR.05.5 Programme of training and information to	Dominic Bradley		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
	Regulations Personal Privacy Infringement Reputation damage			ensure all managers understand their roles.			• Safeguarding adults • Safeguarding children & young people.
				CRR.05.6 Governance review of the Horsham Museum	Dominic Bradley		The review of governance at the museum was completed.
CRR17 Cause: The External Auditors audit the HDC Benefits Grant Subsidy return to the Department for Work and Pensions (DWP) on an annual basis to identify errors. Risk: The Benefit Subsidy claim may be qualified and/or financial losses. HDC has a case load with a particularly high number of working people with many changes of circumstances.	Financial Service Delivery Compliance with regulations Reputation	Dominic Bradley; Beccy Salmon		CRR.17.1 Continuously monitor the level of quality control checking.	Beccy Salmon		The service continues to maintain a robust QC process to mitigate financial loss via a qualified subsidy loss. However, we continue to find long-standing errors relating to claims assessed under the CenSus regime, which lead to overpayments that use up the threshold headroom. Additional workloads such as the Energy Rebate Scheme also put pressure on caseload quality, putting the Council at risk of being close to the lower threshold. The LA Error rate decreases slightly as HB expenditure continues without further error but remains a risk due to the low headroom for future LA Error to be found.
				CRR.17.2 An earmarked reserve for subsidy provision is now in place that would cover the loss of subsidy in the event that the upper threshold in the subsidy claim is breached.	Beccy Salmon		
CRR02 Managerial / Professional Cause: The Council has a legal obligation to protect personal data. The Information Commissioners powers are much more far reaching when they change in May 2018. Risk 1: Major data breach or leak of sensitive information to a third party. Risk 2: Risk of significant ICO fine for non-compliance with new General Data Protection Regulations (GDPR).	People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims Financial losses Fines from regulators Adverse publicity Reputation damage	Dominic Bradley		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Andrea Curson / Sharon Evans		CRR02.3 An induction programme is established, and new staff are completing IS training as part of probation, where relevant. There will be regular updates and additional training provided where necessary, as and when topical issues emerge, in a fast-moving environment that poses IS threats.
				CRR.02.3 Provide a programme of Induction and at least annual training on Information Security to all staff.	Robert Laban		
				CRR.02.4 Annual PSN Accreditation	Andrea Curson		CRR02.4 PSN Accreditation 2021 awarded.
				CRR.02.5 Representatives from each department meet every other month to maintain compliance, updates, and training	Sharon Evans		CRR.02.05 Due to recent data breaches, a new training presentation has been written and was delivered through service team meetings. Member training should be completed before the end of 2022.

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
CRR03 Legal Cause: The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses. Risk: The Council is found to have failed to fulfil its obligations under the Act in the event of a civil emergency.	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	Dominic Bradley		CRR.03.1 Update corporate business continuity plan and regular review.	Robert Laban		CRR.03.1 Plan is up to date. All Neighbourhood Wardens have been trained as Rest Centre Managers and are earmarked for Incident Liaison Officer training later in the year to provide a tactical response at bronze level. Consideration is given to establish a process/ rota for senior managers to manage emergencies. CRR.03.2 All BC plans have been updated in 2022, a sample will be tested with the service heads. CRR.03.5 Hybrid bitesize workshops are starting again from April for: Response, BC, Recovery, Rest Centre ops. CRR.03.6 In line with lifting of all Covid restrictions, regular Covid focussed BC meetings have stopped (but can be reinstated quickly if needed).
				CRR.03.2 Update departmental business continuity plans and regular review.	Robert Laban		
				CRR.03.5 Bitesize workshops to address new procedures and processes.	Robert Laban		
				CRR.03.6 Fortnightly BC meetings during Covid-19	Robert Laban		
CRR06 Physical Cause: The Council is responsible for the health & safety of its clients, staff, and other stakeholders, owns and maintains significant assets, and also has responsibility for H&S in some partner organisations where it does not have operational control. Risk: A health & safety failure occurs.	People come to harm Complaints/claims/ litigation Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale Stress and absenteeism	Jane Eaton		CRR.06.2 H&S Management Forum reviews corporate inspection strategy quarterly.	Robert Laban / Health & Safety Officer		Risk assessments being undertaken, reviewed, and updated.
				CRR.06.3 Training programme includes annual refreshers on a rolling programme. All mandatory training must be completed as part of probation	Robert Laban		
				CRR.06.01 Risk assessments undertaken	Robert Laban / Health & Safety Officer		
				CRR.06.04 H&S Officer regularly reviews high risk areas	Robert Laban		
CRR34 Cause:	Financial	Dominic Bradley		CRR.34.1 Regularly check accounts of key suppliers	Heads of Service		The impact of the world shortage of building supplies remains uncertain.

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
Uncertainty in the UK and World economy. Instability and high-profile failures. Risk: Key contractor failure				CRR.34.2 Check public liability insurance of key suppliers	Heads of Service		Risk of inflation, interest rate rise, and recession are being monitored. Some suppliers are starting to come forward to increase prices outside of the contract, which is being resisted. Key contracts are reviewed as part of the ongoing contact management arrangements and officers are being reminded every quarter to check the financial health of key suppliers and be ready for Plan B. Guidance and training being given as part of our departmental risk management work.
				CRR.34.3 Ask for key suppliers' business continuity plans	Heads of Service		
				CRR.34.4 Consider whether the failure of a key supplier needs to go in service business continuity plan	Heads of Service		
Page 112 CRR35a Cause: Covid-19 infection Risk: Serious risk to the health and safety of workers	Failure of Health and safety, Service Delivery, Compliance with regulations, Reputational loss.	Dominic Bradley		CRR.35a.1 Corporate Health and Safety group oversees H&S measures (staff H&S representative observes)	Dominic Bradley		CRR.35a.3 In line with diminishing Covid-19 infection risks, the Business Continuity Group has been stayed. Monitoring is ongoing by the Corporate H&S Adviser and Emergency Planning Adviser, reviewing relevant HSE, NHS/ Government guidance. Any necessary updates will be through the Comms service by the Head of HR&OD. Risk assessments are reviewed and updated as needed. CRR.35a.7 The Council's trial to move to 50/50 working was extended and was reviewed in the summer, considering emerging practice, staff/ manager feedback and LGA guidance. A decision has been made to continue with hybrid working. CRR.35a.7 Despite the lifting of all Covid-19 restrictions, managers are advised to conduct risk assessments for staff who identify themselves as high risk. Staff working from home must have completed a risk assessment, signed off by their manager.
				CRR.35a.3 Regular updates on government advice on keeping safe	Robert Laban		
				CRR.35a.7 Risk assessments for offices and specific staff	Robert Laban		

Report to Audit Committee

7th December 2022
By the Horsham Chief Internal Auditor

INFORMATION REPORT

Not Exempt

Internal Audit Progress Report – Quarter 2 (01/07/22 - 30/09/22)

Executive Summary

To provide Members with an update on all internal audit and counter-fraud activity completed during the quarter, including a summary of all key findings. The report also includes details of progress on delivery of the annual audit plan together with an update on the performance of the internal audit service during the period.

Recommendations

The Committee is recommended to:

- Note the report and consider any further action required in response to the issues raised.
- Identify any new or emerging risks for consideration for inclusion in the internal audit plan.

Reasons for Recommendations

i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).

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

Background Papers

Internal Audit Strategy and Annual Plan 2022-23.

Wards affected: All.

Report Author: Paul Miller, Horsham Chief Internal Auditor
Contact Details: Russell Banks, Orbis Chief Internal Auditor Tel No. 01273 481447
Paul Miller, Horsham Chief Internal Auditor Tel No. 01403 215319

Background Information

1 Introduction and Background

Background

1.1 This progress report covers work completed between 1 July 2022 and 30 September 2022.

Supporting Information

1.2 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2022-23 which was approved by the Audit Committee on 30 March 2022.

2 Relevant Council Policy / Professional Standards

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

2.2 The Council’s Constitution supports the statutory requirements outlined above. Financial Procedure Rule 4e 27 states that: “The Chief Finance Officer ensures the Council has appropriate arrangements in place to maintain an adequate and effective internal audit. The terms of reference for Internal Audit are detailed in the Council’s Internal Audit Charter which is approved and reviewed annually by the Audit Committee”.

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

3 Details

3.1 Key audit findings from final reports are summarised in Appendix A.

3.2 Six formal audits were finalised during the quarter. One of the audits received an opinion of ‘substantial assurance’, four received an opinion of ‘reasonable assurance’, and one received an opinion of ‘partial assurance’. We also reviewed the PRS (Planning and Regulatory Services) project governance arrangements which was a non-opinion piece of work.

3.3 Formal follow-up reviews continue to be carried out for all audits where ‘minimal assurance’ opinions have been given and for higher risk areas receiving ‘partial assurance’. Progress on action tracking is provided in Section 3 of Appendix A.

3.4 Flexibility is built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these but would also welcome input from Members. Details of those reviews added and removed from the plan this year are set out in section 4 of Appendix A.

3.5 Progress against our performance targets (focussing on a range of areas relating to our service) can be found in section 5 of Appendix A.

4 Next Steps

4.1 The Committee will be kept informed about progress in terms of the delivery of the audit plan for 2022/23.

5 Outcome of Consultations

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

6 Other Courses of Action Considered but Rejected

6.1 Not applicable.

7 Resource Consequences

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

8 Legal Considerations and Implications

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

9 Risk Assessment

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

10. Procurement implications

10.1 There are no procurement implications arising from this report as this report is for noting.

11. Equalities and human rights implications / public sector equality Duty

11.1 There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

12. Environmental implications

12.1 There are no environmental implications as this report is for noting.

13. Other Considerations

13.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.

Appendix A

Internal Audit and Counter Fraud

Quarter 2 Progress Report 2022/23

CONTENTS

1. Summary of Completed Audits

Land Charges Audit (2022/23)

1.1 The Local Land Charges service carries out Horsham District Council's statutory duty to maintain an accurate register of local land charges in the District. Information held on the Local Land Charges Register as well as information held by Planning; Building Control; Environmental Health; and Highways departments can be provided upon request by the purchaser of land or property. To put the volume of searches into context, during the period 01/01/2021 to 30/04/2022, the team dispatched almost 5,000 searches.

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

- All applications for local land charge searches are processed promptly and in accordance with legislation;
- Local land charge rates are approved and set in accordance with regulations;
- There is a robust process to ensure all income due is received in full.

1.3 We provided an opinion of **Partial Assurance,** and the following improvements have been agreed:

- Quality review checks of every 100th search prior to dispatch will be undertaken to ensure that high standards are maintained.
- Officers who complete land charge searches have had their administration rights removed and users no longer working within Land Charges have been deactivated.
- Payment integration for VAT was investigated in 2017, but the estimate of £6k was considered to be cost-prohibitive. The Local Land Charges system is due to be replaced with a new system (Agile) within the next two years. This will have the functionality to split VAT.
- The new system, Agile, will have an integrated document management system which will enable all searches and associated correspondence to be saved centrally.
- Until such time Agile is implemented, search requests will be saved in the G:\Drive with the date, search reference number and first line of search address.
- An email receipt is now provided upon payment when a request is submitted via the Council website.

1.4 A total of one high and five medium risk priority improvement actions were identified, all of which have been agreed with management. We will undertake a follow-up audit during 2023/24.

Treasury Management Audit (2022/23)

1.5 Treasury management is defined as 'the management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

1.6 As at 31st March 2022, the Council's external debt was nil, and investments totalled £83.3 million. During 2021/22, interest of £0.942 million was earned on investments, at an average return of 1.2%. Most investments are fixed deposits with UK institutions, pooled funds, and money market funds.

1.7 The Council's treasury management activities are regulated by a variety of professional codes, statutes, and guidance.

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

- The Council has established an appropriate Treasury Management Policy & Investment Strategy;
- All borrowing decisions are based on robust cash flow forecasting over the short, medium, and long term;
- Investments are made with approved counterparties within approved limits, are correctly paid, authorised, and are repaid by counterparties with the correct amount of interest;
- There is regular and independent reconciliation between the Treasury Management record, the Bank Account and the General Ledger;
- Decision-making is effective in maximising income, whilst safeguarding the Council's assets.

1.9 Overall, we were able to provide an overall opinion of **Reasonable Assurance** over the control environment.

1.10 The Treasury Management Strategy, Capital Strategy and Investment Strategy, including prudential indicators and limits, have all been reviewed and approved by Members and are compliant with CIPFA Treasury Management guidelines. Monthly treasury management meetings routinely take place which are attended by appropriate senior officers, and investments are authorised and recorded correctly with appropriate separation of duties.

1.11 One area for improvement was identified. The monthly reconciliations between the General Ledger and the treasury management records for May 2022 and June 2022 were found to have been signed off late by the Group Accountant (Technical). To help ensure that any inaccuracies are identified early, reconciliations will now be routinely checked and signed off monthly by a senior officer.

1.12 During the audit, we were informed about a breach of the conditions set out in the Treasury Management Strategy. This occurred when £5m was left in the current account over a weekend, exceeding the limit of £2.5m. The cause of the breach has been identified and appropriate additional training will be provided to relevant officers. Details of the breach will be included in the mid-year treasury management report to the Audit Committee in December.

Email Communication (Personal and Sensitive Encryption) Audit (2022/23)

1.13 Email encryption is available and can be applied by the user to secure confidential data that can be shared by email and can prevent email hijacking, where authorised recipients take unintended actions with sensitive information. This is over and above the verification of sender and Transfer Layer System (TLS) that operates as part of the email system.

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

- A clear policy and effective procedures are available to all council officers in relation to the communication of personal and/or sensitive information via email;
- A robust system is in place to allow for the secure sharing of personal and/or sensitive information via email;
- An efficient and effective process is in place to ensure personal and/or sensitive information is only sent to appropriate and validated recipients;
- Support and training are provided to service users to enable them to access the available secure email portal.

1.15 We were able to provide an opinion of **Reasonable Assurance** on the basis that:

- There are comprehensive policies in place for information security and acceptable use that are available on the Council's Intranet.
- The Council's email system is enabled with Transfer Layer System (TLS) which encrypts all emails, and a secure email sharing system is also available.
- The Council has multiple security authentication processes in place to ensure emails that are sent and received are to/from valid email accounts. In addition, the Council has 'Mimecast', which tracks messages that are sent from and received to Council email accounts.
- All staff are required to complete the Data Protection Training e-learning module. In addition to this training, the Information Security Officer has developed and delivered Cybersecurity training officers and Members, which includes an element of email encryption and how personal and/or sensitive data should be sent via email.

1.16 An end user survey found that whilst there are well laid out policies and guidance in place, there was a need for further training to increase awareness. The Information Governance Officer has been attending all team meetings to deliver specific awareness training on sending personal and/or sensitive information.

Purchase Cards Follow-up Audit (2022/23)

1.17 An opinion of Partial Assurance was provided in respect of the 2020/21 audit of purchase cards. As part of our planned work for 2022/23 we agreed with management to undertake a follow up review of this audit.

1.18 The primary purpose of this audit was to follow up the agreed actions from the 2020/21 review. The control objectives from the original review were:

- Payments made are for goods and services that are necessary, and solely for Council use.

- Purchase card expenditure is submitted with robust supporting evidence, and transactions are authorised by an appropriate officer.

1.19 Based on the work carried out as part of this follow up audit, we have been able to provide a revised opinion of **Reasonable Assurance** as:

- All seven agreed actions from the 2020/21 report have been implemented.
- All purchase card holders have been reminded of their responsibilities, and the guidance manual has been enhanced, particularly around the area of VAT.
- Further independent transaction testing was undertaken to evidence that the reminders had resulted in improvements in compliance. The results were very positive.
- An area for improvement was identified concerning VAT rules for overseas transactions. Finance will look to add a further section within the staff VAT guidance about international payments and ask that staff making such payments contact Finance for advice prior to placing an order.

Strategic Planning Corporate Compliance Audit (2022/23)

1.20 The Strategic Planning service is responsible for the development and delivery of the Council's Local Plan, which outlines the Council's ambitions for the community. The strategic planning process establishes goals and objectives for the future and the policies to achieve them. The total spend across the Strategic Planning service in 2020/21 was approximately £1.2 million.

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

- To ensure management has put in place appropriate arrangements for monitoring delivery of the service and assessing its performance and effectiveness;
- All key activities undertaken by the team are conducted in accordance with the Council's policies and procedures and comply with basic internal controls;
- Robust management arrangements are in place and all members of staff are subject to appropriate management and supervision;
- Expenditure is only incurred for legitimate Council business and is in line with the relevant procurement process.

1.22 Overall, we found that the department complied with the majority of corporate policies and procedures we reviewed. Therefore, we have been able to provide an opinion of **Reasonable Assurance** over the controls operating within the are under review because:

- The department's Service Plan links to key service objectives and includes central government targets, which are monitored quarterly. In addition, budget monitoring reports, risk assessments and key performance indicators are regularly completed and reviewed by the department, in accordance with the Council's policies and procedures, to identify patterns, trends, or potential variances in performance at the earliest opportunity

- Personal and sensitive data can only be accessed by appropriate officers within the department. A Record of Processing Activities (RoPA) is completed and updated by the team, which ensures staff are aware of their responsibilities around the management of personal and/or sensitive information
- Declarations of interest and mandatory e-learning packages are completed by staff. The department also has a team charter which clearly outlines the department's objectives, and roles and responsibilities within the team.

1.23 A few medium priority findings were raised, and the following improvements have been agreed with the Head of Strategic Planning:

- Procurement refresher training will be provided, and newly appointed strategic planning officers will receive procurement training as part of their induction process. All staff now contact the Procurement team regarding possible aggregation issues, and some additional controls have been put into place before entering into contracts and before engaging with consultants.
- All strategic planning officers have been reminded of the requirement to complete 1-2-1 forms on T1 (TechnologyOne) on a quarterly basis.
- All strategic planning officers, travelling on council business, have been reminded of the requirement to upload their driving documents into T1 when they expire.

Housing Corporate Compliance Audit (2022/23)

1.24 The Housing Team is responsible for housing allocations from the housing register; managing accommodation (including leases and lettings); and assisting those in the district who are at risk of homelessness or present themselves to the Council as homeless.

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

- To ensure management has put in place appropriate arrangements for monitoring delivery of the service and assessing its performance and effectiveness;
- All key activities undertaken by the team are conducted in accordance with the Council's policies and procedures and comply with basic internal controls;
- Robust management arrangements are in place and all members of staff are subject to appropriate management and supervision;
- Expenditure is only incurred for legitimate Council business and is in line with the relevant procurement process.

1.26 We were able to provide an opinion of **Substantial Assurance** with the department complying with the majority of corporate policies and procedures we reviewed.

1.27 There were just a few areas where the control environment could be improved which related to purchase card transactions; driver documentation; and declarations of interest. An action plan has been agreed with the responsible Head of Service to address these.

PRS (Planning and Regulatory Systems) – Review of Project Governance Arrangements (2022/23)

1.28 Horsham DC is in the process of replacing the legacy system for Environmental Health and Licensing; Building Control; Planning; and Land Charges, historically held in the Uniform System with an Oracle Database. As part of this programme of work, there will be changes to how the Property Gazetteer and GIS Mapping work.

1.29 There is also a future need to align Land Charges with HM Land Registry systems. The new system has been procured from AGILE Communications Ltd and will be delivered as a Software as a Service solution.

1.30 At the time of the audit, the Environmental Health and Licensing system has gone live with the remaining two systems due to be implemented in the future.

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

- Project initiation documentation exists that clearly defines the objectives of the project;
- The project initiation documentation lists the roles and responsibilities of the project team, and these are known and understood by members of the project team and other key stakeholders;
- Risks are appropriately identified, evaluated, and managed;
- Effective quality and cost controls are in place;
- Reporting and communication during the project are well managed and accurately reflects the position of the project.

1.32 The audit was undertaken as a light touch review at the end of the first phase, designed to identify any improvements required to the project governance arrangements whilst minimising any disruption to delivery. As such, no formal audit opinion has been provided.

1.33 We found that whilst project management arrangements are in place, improvement could be made to enhance risk management and reduce the possibility for delays within the project.

1.34 We identified a number of areas of good practice, including:

- The Project Sponsor and Deputy Project Sponsor receive updates on the progress of the project on a six-weekly basis via highlight reports. The quality of the highlight reports is considered to be good.
- Both the Project Sponsor and Deputy Project Sponsor are attending Project Board Meetings to support corporate oversight.
- The cost of the project was agreed via Tender response and we were advised that there is regular monitoring of expenditure against budget to ensure there is no over/under spend. As the audit is a light touch review, we have not investigated the budget monitoring arrangements in any detail.
- There is a Project Initiation Document in place that was agreed with AGILE Communications Ltd – the new software supplier.

- Regular Project Board meetings are held and there is a good working arrangement between all parties.

1.35 The main findings from our review are summarised below:

- Whilst there is a gateway review/checkpoint process in place, linked to the payment process, project progress against these is not regularly reviewed at project board meetings, and delivery timelines have passed and are considered to be out of date. It has been agreed that a process will be developed to revise the project plan and the gateways/checkpoints. Moving forward, the project board will regularly review progress against revised plans and gateway/checkpoints to monitor the progress of the project.
- We found that there are a number of risk and issues logs in place. In the absence of a single project wide record and a consistent approach to the monitoring and escalation of risks and issues, these logs may not all be fully monitored and mitigated sufficiently. The project manager has agreed to discuss this with the Board, and if it is decided that the recording of risks and issues on a separate log wouldn't add value, then it was agreed that there will be oversight of all logs when capturing and reporting information as part of the highlight reports.

2. Counter Fraud and Investigation Activities

National Fraud Initiative (NFI)

2.1 Internal Audit are currently working with services to ensure that the relevant data extracts are uploaded for the 2022 National Fraud Initiative (NFI) data matching exercise. The matches from the exercise will be available to review from 26 January 2023. The team continue to monitor intel alerts and share information with relevant services when appropriate.

Fraud Risk Assessments

2.2 A Fraud risk assessment has been undertaken to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified. The outcomes from the assessment help to inform the annual internal audit plan.

Counter-Fraud Strategy and Framework

2.3 The Orbis Counter Fraud team has developed a Counter-Fraud Strategy and Framework for Horsham. This has recently been reviewed and updated and the revised version was approved by both the Senior Leadership Team and the Audit Committee in September 2022. The revised version is being updated on the Council's Intranet.

3. Action Tracking

3.1 All high priority actions agreed with senior management as part of individual audit reviews are subject to action tracking. As at the end of quarter 2, 100% of high priority actions due had been implemented within agreed timescales.

3.2 Internal Audit will continue to work with senior management to ensure that sufficient attention is given to any high or medium priority actions that are overdue and an update on progress with high priority actions will continue to be reported to this committee.

4. Amendments to the Audit Plan

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

Planned Audit Work	Rationale for Addition
Protect & Vaccinate Grant Certification	Central Government directive
COMF (Contain Outbreak Management Fund) Grant Certification	Central Government directive
Bespoke Risk Management Training	Client request
Declaration of Interest Reports compiled and sent to each Head of Service covering their individual areas of responsibility.	Client request
Provision of audit advice following changes in officer roles for administering the payroll function.	Client request - Potential risk to the control environment

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

- Private Sector Leasing Scheme (advisory work in respect of the process will be undertaken instead of a full review, with a view to undertaking a full audit once the Scheme is operational).

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set of agreed key performance indicators as set out in the following table:

6. Aspect of Service	Orbis IA KPI	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by the Audit Committee on 30th March 2022.

	Annual Audit Report and Opinion	By end July	G	2021/22 report presented to the Audit Committee on 29th June 2022.
	Customer Satisfaction levels	90% satisfied	G	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	G	54.3% completed to draft report stage at the end of Quarter 2, against a target of 45%.
Compliance with professional standards	Public Sector Internal Audit Standards complied with	Conforms	G	January 2018 – External assessment by the South-West Audit Partnership gave an opinion of 'Generally Conforms' – the highest of three possible rankings. June 2022 - Quality Review of audit assignments identified no major areas of non-conformance.
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified.
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high & Medium priority agreed actions	G	100%
Our staff	Professionally qualified / accredited	80%	G	91%[1]

[1] Includes part-qualified staff

Appendix B

Audit Opinions and Definitions

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

Report to Audit Committee
7 December 2022
By the Director of Resources
INFORMATION REPORT

Not exempt

Treasury Management and Prudential Indicators mid-year report 2022/23

Executive Summary

This report covers treasury activity and prudential indicators for the first half of 2022/23. During the period the Council complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, was not breached. There were two instances where the limit for the Council's bank was exceeded. In both cases corrective action was taken on the next working day. Activity was in line with indicators apart from the indicator covering interest rate sensitivity where the value at end of September exceeded the estimate. This was primarily due to higher than projected cash balances.

At 30 September 2022, the Council had no external debt and its investments totalled £87.8m (£80.0m at 30 September 2021). During the first half of 2022/23, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.662m was earned on investments at an average return of 1.5% (1.2% full year 2021/22).

Treasury investment income for the full year is forecast to be £1m above the budget as interest rates are significantly higher than those in the budget. Commercial property income is approximately on budget for the year although the prospect of recession may affect the second half of the year.

Recommendations

The Committee is recommended to:

i) Note the treasury management stewardship report at the mid-year 2022/23
ii) Note the mid-year prudential indicators for 2022/23

Reasons for Recommendations

i) This mid-year report is a requirement of the Council's reporting procedures
ii) This report meets the requirements of the relevant CIPFA Codes of Practice for Treasury Management and Prudential Indicators in Capital Finance.

Background Papers

- "Capital Strategy 2022/23 incorporating Investment and Treasury Management Strategy" – Audit Committee 1 December 2021
- "Budget 2022/23 and Medium-Term Financial Strategy" – Cabinet 27 January 2022

Consultation: Arlingclose Limited. Council's Treasury management advisors
Wards affected: All
Contact: Julian Olszowka, Group Accountant, Technical 01403 215310

Background Information

1 Introduction

The purpose of this report

1.1 This report covers treasury management activity and prudential indicators for the first half of 2022/23. It meets the requirements 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. The Code recommends that Members are informed of Treasury Management activities at least twice a year. This will increase to quarterly next financial year following last year's revision to the Codes.

Background

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 show that capital spending is prudent, affordable and sustainable and that treasury practices adequately manage risk. The Council approved the original indicators for 2022/23 together with the Capital Strategy on 9 February 2022. The Capital Strategy including the Treasury Management Strategy 2022/23 had been recommended for approval by this Committee on 1 December 2021.

1.3 CIPFA published its revised Treasury Management Code of Practice and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the two Codes took immediate effect although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year which the Council has elected to do.

1.4 The economic background to treasury management remains challenging with the recovery from the pandemic and uncertainty over the direction of the economy in the next year or so. Arlingclose Limited, the Council's treasury management advisors, have provided a commentary on the half-year so far in Appendix A.

Local Context

1.5 At the end of 2021/22 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £33.6m, while usable reserves and working capital which are the underlying resources available for investment were £117.3m. The Council had no borrowing and £83.7m of investments reflecting its use of internal resources rather than borrowing in order to reduce risk and keep interest costs low.

1.6 On 30 September 2022, the Council had no borrowing and investments of £87.7m. Investment totals have been at all-time highs as Covid-19 related grants had flowed in and much of the capital programme as well as spend of developer contributions was delayed. A significant amount of residual Covid related payments is likely to be repaid to Central Government in the next few months so the cash balance should come down for the end of the year.

1.7 Interest rates have risen in the first half of the year leading to significantly increased income. However, the exact trajectory of rates is unclear with inflation on one side and recession on the other leaving the Bank of England with a difficult course to navigate. This leaves the Council with the problem of whether to invest now or wait for possible increased rates.

2 Treasury management

Borrowing Activity

2.1 There was no borrowing in the period. No borrowing is envisaged in the second half of the year although the Council's balances will fall towards the end of the year as tax receipts are significantly front loaded and much residual Covid related money is repaid.

Investment Activity

2.2 The treasury management position at 30 September 2022 is shown below. This is the month end position, but the daily position can vary as a large portion of income comes in at the beginning of month to be distributed to precepting authorities a few days later.

	31.3.22 Balance £m	**Movement £m**	**30.9.22 Balance £m**	**30.9.22 Rate %**
Call accounts	4.1	0.0	4.1	0.3
Money Market Funds – call	10.5	2.5	13.0	1.7
Money Market Funds – cash plus or short bonds	13.3	-0.3	13.0	0.7
Short-term deposits	29.5	-0.5	29.0	2.0
Pooled Funds – Property	5.6	0.0	5.6	3.8
Pooled Funds – Multi-Asset	6.9	1.3	8.2	3.4
Pooled Funds – Equity	5.6	2.2	7.8	2.9
Pooled Funds – Bonds	5.7	-0.7	5.0	2.6
REIT	2.1	-0.1	2.0	2.3
Total Investments	83.3	4.4	87.7	2.1

2.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

2.4 Investment income on an accrued basis in the period was £0.66m well above the budget of £0.3m. The average return was 1.5% well above the budgeted figure of 1.0% and cash balances averaged £86m well over the budgeted £63m. Due to the prudent cash flow projections the Council usually has more cash than budgeted. The pandemic amplified this, with inflows, including Covid-19 grant monies and developer contributions, continuing while spend, notably in the capital programme, was subdued. It may be a few years before all Covid effects work their way out of the system.

2.5 The returns in the second half of the year are expected to continue to show marked increases and the outturn position on income is expected to be £1m above budget.

2.6 Given the risk and low returns from short-term unsecured bank investments, the Council has reduced its exposure to them except through well diversified money market funds or call accounts. Otherwise, the Council has used local authorities, central government, secured bonds alongside strategic pooled funds. These strategic pooled funds, comprising equity, bonds and property, are a key part of the strategy. As can be seen from the table above they are a significant contributor to overall income.

2.7 Pooled funds' asset values can be volatile in the short term. The values of pooled funds had dipped and recovered from the market crash in March 2020 but have dipped again and at the end of the first half of the year the value of these investments were £1.3m below the initial investment. However, it should be remembered that these investments are longer term so any snapshot of capital gain or loss should not be overemphasised.

Compliance

2.8 The Director of Resources reports that all treasury management activities undertaken during the first half of 2022/23 complied with the CIPFA Code of Practice and the Treasury Management Strategy recommended by this Committee apart from two indicators that were exceeded. The limits exceeded were the amount with the Council's own bank which happened twice and the measure for interest sensitivity.

2.9 On Friday 19 August an error was made bringing back funds a day earlier than necessary, resulting in £5.3m being in the overnight balance over the weekend. It then cleared on the next working day when the expected payment out that had been covered a day too early went out. Additional training has been carried out with the officers involved to emphasise how to use the cash flow relative to the cash limits.

2.10 Although occurring in the second half of the year, we are reporting the second instance now, which was effectively outside of the control of officers as a sum of £1.26m was paid to the Council at 3pm on 27 October 2022 that meant the end of day total in the Bank was £2.76m. At that time of day, there is no possibility of investing the cash as all the deadlines for investment options had passed. The payment was a developer contribution and although officers knew there was a possible payment there was no way to control the timing of the receipt.

2.11 The interest sensitivity indicator exceeded its limit as detailed below. Although the interest sensitivity indicator is no longer a CIPFA recommendation it is regarded as good practice. It was set with the expectation that cash balances would have settled back to the levels before the pandemic but a combination of factors have elevated the levels of cash. The element of Covid grants remaining should be paid back in the second half of the year which should reduce cash balances but the levels of reserves and developer contributions are still considerable and are not at the moment being spend at a significant pace.

2.12 Security of capital has remained the Council's main investment objective. Key to this is the counterparty policy as set out in its treasury management strategy. Counterparty credit quality was assessed and monitored with reference to credit ratings, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Treasury Management Indicators

2.13 The Council measures and manages its exposures to treasury management risks using the following indicators.

2.14 **Security benchmark** – The Council set a security benchmark rating of A, which is the average credit rating for the investment portfolio. The average rating was at above the benchmark at AA- during the first half of the year.

2.15 **Liquidity benchmark** – The Council sets a benchmark to maintain a minimum of liquidity. The benchmark set was that £3m is available within a rolling three-month period without additional borrowing. The Director of Resources can report that liquidity arrangements were well within benchmark during the year to date with overnight cash alone not falling below £15m.

Treasury Management Indicators

2.16 **Interest rate exposures** - This indicator is set to control the Council's exposure to interest rate risk. The exposures to variable rate interest rates is quantified by the one-year revenue impact of a 1% rise or fall in interest rates. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. This indicator is over the limit as actual cash balances are significantly more than the projected cash balances at the time of setting the indicators.

Interest rate risk indicator - Upper limit	Limit	Actual	Complied
One-year revenue impact of a 1% rise	-£0.25m	-£0.36m	x
One-year revenue impact of a 1% fall	£0.25m	£0.36m	x

2.17 It was expected at the time of setting the limits that the considerable Covid-19 grant monies would have been dispensed or paid back to Central Government but significant sums remain. Compounding this, the expected outflow of capital spend and developer contributions has been slower than expected. Reserves have also remained well above minimum levels. It is worth noting that the possibility of reduction in rates and hence a fall in income is low as the interest rates are rising.

2.18 Cash balances should reduce in the rest of the year and more fixed interest investments will be made in the second half of the year that will reduce this indicator for the year-end report.

2.19 **Principal sums invested for periods longer than 364 days** – The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its long-term investments. There were no such investments so the Council was within the indicator set:

	Original Indicator	Maximum Position
Maximum principal sums invested > 364 days	£16m	£0m

3 **Prudential Indicators 2022/23**

3.1 The Local Government Act 2003 requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much it can afford to borrow. The objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable. To demonstrate that the Council meets these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

3.2 **The Council's Capital Expenditure and Financing 2022/23 -** This is one of the required prudential indicators and shows total capital expenditure for the year and how this is financed. The estimated indicator is shown below.

2022/23	Original estimate £m	Current projection £m
Total capital expenditure	11.4	6.1
Resourced by:		
External Resources	2.8	2.4
Internal Resources	7.9	3.7
Debt	0.7	0.0
Total financing	11.4	6.1

3.3 The estimated capital spend in 2022/23 is well under the original budget with financing similarly lower than expected. No unfinanced spend is currently projected.

3.4 **The Council's overall borrowing need -** 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 within the Council.

3.5 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 2022/23 MRP Policy was approved on 9 February 2022 within the 2022/23 Budget report.

3.6 The Council's CFR for the year is shown below, and represents a key prudential indicator. The current projection is slightly less than the original estimate. No increase in long-term borrowing is projected in this financial year.

Capital Financing Requirement and External Debt Year end 2022/23	Original estimate £m	Current projection £m
CFR	33.2	32.7
External debt	0	0

3.7 External borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. No difficulties are envisaged for the current or future years in complying with this Prudential Indicator as no long-term borrowing is currently planned.

3.8 **Borrowing limits** - The Council approved these Prudential Indicators as part of the 2022/23 Budget report.

3.9 **Operational boundary for external debt:** The operational boundary is the Council's estimate of most likely, but not worst-case scenario for external debt.

3.10 **Authorised limit for external debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom above the operational boundary for unusual cash movements.

	Limit	Actual	Met?
Operational boundary – borrowing	£0m	£0m	✓
Operational boundary – other long-term liability	£0m	£0m	✓
Operational boundary – **TOTAL**	**£0m**	**£0m**	✓
Authorised limit – borrowing	£15m	£0m	✓
Authorised limit – other long-term liability	£6m	£0m	✓
Authorised limit – **TOTAL**	**£21m**	**£0m**	✓

3.11 **The ratio of financing costs to net revenue stream -** This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream. The indicator for the year was 0%. Based on current estimates the ratio is expected to be 0% for the year. This is because the investment income nets down the financing costs calculation to zero.

4 Non-Treasury Investments

4.1 The definition of investments in CIPFA's Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in Department for Levelling Up, Housing and Communities' Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

4.2 The Council has a significant directly owned property portfolio valued at £60m at the end of 2021/22. The original investment strategy set £3.7m as the income net of direct costs figure from the property portfolio and the present forecast is that the actual position will be close to budget. There is some risk in this as the general economic position is challenging.

4.3 There are a number of other indicators that were set for the year that cannot be definitively calculated until the end of the year when the accounts are closed and all relevant income and expenditure is accrued and central expenses are apportioned across all the Council's services. Some indicators can estimated as a snap shot from property records and the table below shows the original estimated indicators and the latest projections.

Indicator	Estimate	Latest
Average Vacancy levels	3%	3.7%
Tenant over 5% net income	4	4
Weighted Average Unexpired Lease Term	14yr	14yr7m
Bad debts written off	£200,000	£0

4.4 A number of indicators for the investment properties require the end of year value of properties. A valuation of all investment properties is carried out at year end as a part of the final accounts. Valuations had been affected by the uncertainty caused by the pandemic and were recovering but possible recession may well affect the values at the year-end date.

4.5 The Council has made loans to its housing company of £0.2m in the period so far this year. The Council also made one small loan (£0.3m) to a community run leisure centre in 2015. The limit for service loans is £3m. Further loans to the Housing Company may occur but will not lead to the overall loans exceeding £1m.

4.6 The Council has a limit on share investment of £0.5m. Equity investment of £0.5m has been made in the Councils' Housing Company and no further investment is planned.

5 Outcome of Consultations

5.1 Externally the Council's adviser Arlingclose was consulted. Internally the Head of Property and Facilities was consulted.

6 Other courses of action considered but rejected

6.1 This report is to be noted so no particular course of action is recommended.

7 Resource Consequences

7.1 For the first half year interest earned was £0.66m compared to £0.48m last year in the same period. Interest earned in 2022/23 is projected to be £2.0m, which is £1.0m over the budget of £0.97m. MRP is projected to be on budget of £0.92m.

7.2 There are no direct staff resourcing consequences. However, the risks in the investment environment highlights the continuing need for staff training and staff will take advantage of courses run by its advisors Arlingclose Limited.

8 Legal Considerations and Implications

8 .1 This report is part of the Council's legal obligation under the Local Government Act 2003 to have regard to both the relevant CIPFA Codes and guidance issues by the Department for Levelling Up, Housing and Communities Guidance.

9 Risk assessment

9.1 Risks such as security of funds, liquidity, and interest rate risk are considered in the report. The limits and indicators chosen effectively set the Council's risk appetite and we here report on the actual values in the first half of the year against those limits and indicators.

10 Procurement implications

10.1 There are no procurement implications arising from this report.

11. Equalities and Human Rights implications / Public Sector Equality Duty

11.1 There are no direct equality or human rights implications arising from this report. However, it is recognised that the Council's investment choices may have an indirect effect on social issues. The investment management industry has begun to add social issues such as human rights and equality to its criteria for selecting investments and although this is at an early stage officers will work with its advisers as to how it can positively contribute in this area.

12 Environmental Implications

12.1 There are no direct environmental implications attributable to the recommended strategies. However, it is recognised that the Council's investment choices may have an indirect effect on the environment. Officers will work with its adviser as to how it can positively and constructively use its investments to reduce impact on the environment.

13 Other Considerations

13.1 There are no other considerations to take into account.

Appendix A

Economic background to the midpoint of 2022/23

Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.

Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial markets: Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.
Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.
Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

Credit background: In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Report to Audit Committee

7 December 2022

By the Director of Resources

DECISION REQUIRED

Not exempt

Horsham District Council

Capital Strategy 2023/24 incorporating Investment and Treasury Management Strategy

Executive Summary

This report combines an overview of how capital expenditure, capital financing, treasury and other investment activity contribute to the provision of local public services, how the associated risks are managed and the implications for future financial sustainability.

The strategies set limits and indicators that embody the risk appetite that the Council believes to be prudent. The strategies are set against the Council's own mid-term financial strategy, the context of the UK economy and projected interest rates.

The report reflects revisions made by CIPFA to its Treasury Management and Prudential Codes last year. These have introduced new indicators and requirements designed to deal with risks perceived in the local authority sector.

The report sets treasury investment criteria and limits which are largely unchanged in real terms. A number of limits are increased in line with inflation as they have remained unchanged for some years. Limits for sovereign and secured bonds have been extended reflecting an assessment of the risk they are exposed to. The interest rate sensitivity indicator is increased from £250,000 to £300,000 reflecting higher cash balances.

The investment strategy in paragraphs 4.11 to 4.18 and appendix C pulls together information on service loans and commercial property to demonstrate the Council's risk management approach in that area. The overall strategy is unchanged apart from an increase in the service loans to accommodate expected activity by the Council's Housing Company. The commercial property portfolio was largely recovering from any pandemic effects but risks to income persist especially in the retail part of the portfolio due to the present recession.

Recommendations

The Committee is asked to:

i) approve this Capital Strategy as an appropriate overarching strategy for the Council while leaving the full Council to approve the updated Capital Strategy that will accompany the 2023/24 budget to Council.

ii) recommend that the full Council approve the Treasury Management Strategy for 2023/24 and the associated limits and specific indicators included in section 4 and appendix B of this report.

iii) recommend that the full Council approve the Investment Strategy for 2023/24 and the associated limits and specific indicators included in section 4 and appendix C of this report.

Reasons for Recommendations

i) The Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice and Prudential Code for Capital Finance that require the Council to approve a Capital Strategy, Investment Strategy and Treasury Management Strategy before the start of each financial year.

ii) The Department for Levelling Up, Housing and Communities (DLUHC) issued revised guidance on local authority investments in 2018 that the Council is required to have regard to.

Background Paper

"Update on the Council's financial position 2022/23" – Cabinet 24 November 2022

Consultation: Arlingclose Limited

Wards affected: All

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

Background Information

1 Introduction

The purpose of this report

1.1 This report covers the requirements of CIPFA Codes and guidance that the Council must, by statute, have regard to. Section 3 gives an overview of:

- how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services
- how associated risk is managed and;
- the implications for future financial sustainability.

1.2 The Treasury Management Strategy in section 4 covers the aspects of investments that this Committee has historically considered. It covers management of the Council's cash flows, borrowing and investments, and the associated risks.

1.3 The Investment Strategy starting in paragraph 4.11 covers investments held for service purposes or for commercial yield.

1.4 The guidance requires the Capital and Investment Strategies to be approved by the full Council while the Treasury Management Strategy can now be approved by a subcommittee of the Council. However, here we follow the Council's own practice that this Committee recommends the Treasury Management Strategy be approved by the full Council.

2 Background

Economic background

2.1 The Council's strategies must take account of expectations for the economy and specifically the finance sector. The Council receives advice on this from its advisors Arlingclose Ltd. Appendix A is a commentary by them on the current economic background, the outlook for creditworthiness and interest rates.

2.2 For the purpose of the interest budget, any new investments are estimated to be on or about the Bank Rate.

2.3 The treasury management environment has changed radically since last year. The very low yields that seemed to be the new normal have been replaced by rising rates and rate volatility. Although this has brought challenges of interpreting how rates would develop, the rising rates have significantly increased the Council's investment income.

Statutory background

2.4 This report is part of the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Codes and the Department For Levelling Up, Housing and Communities Guidance. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

2.5 The regulatory background has been complicated by the revision of both CIPFA Codes and Department for Levelling Up, Housing and Communities guidance. Both CIPFA and the Department For Levelling Up, Housing And Communities do not seek to prescribe precisely how councils invest but they clearly have concerns that some councils are taking increasing commercial risks using borrowed money. This approach means that Members are asked to look at a more extensive strategy so that more of the risks that the Codes and guidance highlight are apparent to Members.

Relevant Council policy

2.6 The Council's constitution requires that the Council approve Prudential Code indicators and Treasury Management Strategy. The Investment Strategy covering commercial property has been split from the traditional Treasury Management Strategy here for ease of understanding as it deals with a different type of investment, but it can be considered to be encompassed in the definition of the Treasury Management Strategy as used by the Constitution.

2.7 The existing strategies and Prudential indicators were approved by the Council in February 2022; having been recommended for adoption by this Committee on 1 December 2021.

3 **Capital Expenditure and Financing**

3.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing or leasing).

3.2 Service managers bid annually in October to include projects in the Council's capital programme. Bids are collated by Finance who calculate the financing cost (which can be nil if the project is fully externally financed). The Senior Leadership Team appraises all bids based on a comparison of service priorities against financing costs and makes recommendations to the informal cabinet. The final capital programme is then presented to Cabinet in January and to Council in February each year.

3.3 The current projected capital programme and financing is shown below. It includes current estimates for capital bids for 2023/24 and beyond. It will be revised, if necessary, as the 2023/24 budget process develops and the final figures that appear alongside the Budget in February 2023 will constitute one of the prudential indicators required by the CIPFA Prudential Code.

£millions	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Services Capital Spend	4.6	5.5	6.7	8.3	14.1
Capital Investments	0.1	0.6	1.6	1.5	0
Financed by:					
External resources	2.0	2.4	2.0	7.4	6.6
Internal Resources *	1.4	3.7	6.3	2.4	7.5
Debt	1.3	0.0	0.0	0.0	0.0
Total Financing	4.7	6.1	8.3	9.8	14.1

* Includes use of New Homes Bonus

3.4 From this year, following a revision to the CIPFA code, capital spend is broken down into spend which directly provides services and spend on capital investments, which covers equity and loans provided to the Council's Housing companies or necessary improvements to existing investment properties.

3.5 The term 'Debt' used above does not automatically lead to external borrowing as the Council may be able to use cash it holds in reserves and as working capital which is usually termed 'internal borrowing'.

3.6 Over time, all debt, whether it be internal or external borrowing, must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). The Council is required to make an annual MRP statement and this will be included in the Budget report in January 2023 and the methodology will be on the same basis as 2022/23. The current planned MRP payments are as follows:

£millions	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
MRP	0.9	0.9	0.9	0.9	0.9

3.7 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and any capital receipts used to replace debt. The CFR is gradually decreasing as MRP is paid and no new unfinanced spend is planned. The decrease is less in 2023/24 due to the change in lease accounting. The Council's estimated CFR is projected as follows:

£millions	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
CFR	33.6	32.7	31.8	30.9	30.0

3.8 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets. Repayments of capital grants, loans and investments also generate capital receipts. Loans repaid below are estimates of those from the Council's Housing Company. The Council projects capital receipts as follows:

£millions	2021/22 actual	2022/23 forecast	2023/24 estimate	2024/25 estimate	2025/26 estimate
Asset sales	1.3	0.4	0.5	1.3	2.3
Loans repaid	0.0	0.0	0.4	1.6	1.6
TOTAL	**1.3**	**0.4**	**0.9**	**2.9**	**3.9**

4 Treasury Management

4.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

4.2 **Borrowing strategy**: The Council has no plans to borrow but could find itself in a position which calls for borrowing. In that circumstance, the main objectives when borrowing would be to achieve a low but certain cost of finance while retaining flexibility. These objectives are often conflicting, and the Council therefore would seek to strike a balance between short-term loans (currently available at about 3%) and long-term fixed rate loans where the future cost is known but usually higher (currently about 4%).

4.3 Projected levels of the Council's total outstanding debt are shown below, compared with the Capital Financing Requirement. Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from the table the Council expects to comply with this in the medium term.

£millions	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
Debt	0	0	0	0	0
CFR	33.6	32.7	31.8	30.9	30.0

4.4 The table above demonstrates that the Council is relying on internal borrowing i.e. using reserves and other cash resources that it holds rather than borrowing from external sources. From projections of the capital programme and use of reserves this strategy is seen as sustainable in the medium term although the Director of Resources will monitor the actual position against the projections in order to be ready to respond should external borrowing become advisable.

4.5 **Liability benchmark:** This is a new indicator in the CIPFA Prudential Code designed to compare an Authority's actual borrowing against a benchmark showing the lowest risk level of borrowing. The Council has no current or forecast need to borrow and therefore has a liability benchmark of zero. The table in paragraph 4.8 below shows a projection of investments based on long-term cash flow forecasts and this acts as a general envelope for the long term treasury management strategy.

4.6 **Affordable borrowing limit**: Irrespective of plans to borrow or not the Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. Although no borrowing is planned, limits are set in case a need develops. Further details on borrowing are in appendix B.

£millions	**2022/23 limit**	**2023/24 limit**	**2024/25 limit**	**2025/26 limit**
Authorised limit – borrowing	15	15	15	15
Authorised limit – leases	6	6	6	6
Authorised limit – total external debt	21	21	21	21
Operational boundary – borrowing	0	0	0	0
Operational boundary – leases	0	0	0	0
Operational boundary – total external debt	0	0	0	0

4.7 **Treasury Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management and will be dealt with in the Investment Strategy in paragraph 4.11 onwards and Appendix C.

4.8 The Council's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the Council may request its money back at short notice. The future longer-term investments in the table below are strategic pooled funds that the Council intends to hold for the longer term, although they can be sold if required.

	31.3.2022 actual	**31.3.2023 forecast**	**31.3.2024 estimate**	**31.3.2025 estimate**	**31.3.2026 estimate**
Near-term investments	57	41	37	33	27
Longer-term investments	26	32	32	32	32
TOTAL	**83**	**73**	**69**	**65**	**59**

4.9 The projections show cash balances at year-end, which is a cash low point, in the region of £60m in the medium term. The Capital programme no longer features major projects while developers' contributions tend to flow in faster than they are spent. Further detail on treasury investments are in Appendix B including limits and indicators which the Committee is asked to consider. The significant changes compared to last year’s limits are an increase on sum limits to reflect the real value of money, increases on time limits for investments in certain secure investments, and a change to the interest rate exposure indicator.

4.10 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Resources and staff, who must act in line with the Treasury Management Strategy as approved by the Council following this committee’s scrutiny and recommendation. The Audit Committee currently receives a mid-year and full year report and is responsible for scrutinising treasury management decisions. The revised CIPFA code recommends a quarterly report, which will commence in the new financial year.

Investment Strategy (loans, shares and property)

4.11 This section is the disclosure required by CIPFA and the Department for Levelling Up, Housing and Communities guidance, which has been tightened in recent years as concerns over the perceived increasing risks in Local Authority sector as councils have become more commercial and made large commercial property purchases.

Investments for Service Purposes

4.12 The Council has the ability to make investments to assist local public services, including making loans to local service providers and buying shares and making loans to any Council subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments. However, it still plans for such investments to generate a profit after all costs to offset risk. Further details on service investments are in appendix C. The overall limits are increased by £1m to £4m on the total exposure to loans for service purposes. The £0.5m exposure permitted for shares is unchanged.

4.13 **Governance:** Decisions on service investments are made by the full Council after the relevant Head of Service has submitted a comprehensive analysis in consultation with the Director of Resources and must meet the criteria and limits. Most loans and shares are capital expenditure and will therefore also be approved as part of the capital programme in the Budget report or by full Council.

Commercial Activities

4.14 With central government financial support for local public services declining, the Council invests in commercial property within the district purely or mainly for financial gain. Total commercial investments were valued at £60m on 31 March 2022. These provide a net return after direct costs of just under 6% based on the last set of final accounts which value the assets at market value rather than historical value.

4.15 As financial return is the main objective, the Council recognises the higher risk on commercial investment compared with treasury investments. The principal risk exposures include individual voids, falls in market value, and changes in economic activity. Individual property risks are constantly monitored and managed by the Head of Property and Facilities. Should income not meet expectations the Council holds at least £6m of general reserves available to balance the revenue budget in the short term while the Head of Property and Facilities reviews the performance of the portfolio.

4.16 In order that commercial investments remain proportionate to the financial capacity of the Council, these are subject to an overall maximum investment limit which is set at £70m.

4.17 **Governance:** Decisions on new commercial investments are made by the Cabinet after consideration by the Policy Development Advisory Group for Finance and Parking in line with the criteria and limits approved by the Council in this strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme. Further details on commercial investments and associated limits and benchmarks are in appendix C.

4.18 **Net income from commercial and service investments to net revenue stream:** the latest iteration of the Code requires the reporting of a prudential indicator that shows the proportion that commercial and service net income forms of the whole Council's net revenue stream.

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Total net income from service and commercial investments	£3.5m	£3.7m	£3.7m	£3.8m	£3.9m
Proportion of net revenue stream	28%	28%	28%	28%	28%

Other Liabilities

4.19 The Council has set aside £1.6m to cover risks of Business Rates Appeals. The Council is also at risk of having to pay for historic insurance claims but has not put aside any money because there is no reasonable assessment of the amount required.

4.20 **Governance:** Decisions on incurring new discretionary liabilities are taken by the relevant director in consultation with the Director of Resources. If significant, these would be discussed at the quarterly corporate risk management meeting and final decisions as to recognition taken by the Director of Resources. New liabilities exceeding £1m are reported to full Council for approval or notification as appropriate. Further details on liabilities are in note 18 of the 2021/22 statement of accounts.

Revenue Budget Implications

4.21 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. This annual charge is known as financing costs. This is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants to produce a required prudential indicator. As the Council does not borrow the financing costs are purely the MRP which is stable as no new unfinanced spend is envisaged.

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£m)	0.9	0.9	0.9	0.9	0.9
Proportion of net revenue stream	7%	7%	7%	7%	7%

4.22 **Sustainability:** Due to the long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Director of Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable because the net budget demand on the Council and the risks in the programme have been reviewed and fall within the Council's tolerances.

Knowledge and Skills

4.23 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Resources and S151 Officer is a qualified accountant with over 20 years' finance experience and the Head of Property and Facilities is a fellow of RICS with over 35 years' experience in commercial property. The Council continues to support junior staff to study towards relevant professional qualifications.

4.24 Where Council staff do not have the knowledge and skills required, use is made of external advisers that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and for any significant property investment would use property consultants with specialist knowledge of the appropriate property sector. This approach ensures access to right knowledge and skills and can be more cost effective than employing such staff directly. The overarching requirement is that the Council has access to knowledge and skills commensurate with its risk appetite.

5 Outcome of Consultations

5.1 Externally the Council's adviser Arlingclose was consulted. Internally the Head of Property and Facilities was consulted.

6 Other courses of action considered but rejected

6.1 The Department for Levelling Up, Housing and Communities' Investment Guidance and the CIPFA Codes of Practice do not prescribe any particular strategies for local authorities to adopt. The above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below:

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates using less internal funds	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Invest more in service loans	Interest income will be higher and service benefits will accrue	Increased risk of losses from credit related defaults or service body being unable to pay loan and provide service
Reduce investment in property	Income will be lower	Lower chance of losses from non-paying tenants or falling property values.
Invest additional sums in property	Income will be higher	Increased chance of losses from vacancies or falling property values. Reputational and regulatory risk if Council incurs large loss

7 Resource consequences

7.1 The budgeted treasury investment income in 2023/24 is £2.4m (2022/23 £0.97m), which is equivalent to an average investment portfolio of £71m at an interest rate of 3.4%. The increase is due to the general increase in the rates available. There is no budget for debt interest as no borrowing, even on a short-term basis, is envisaged. The budget for commercial property net income is £3.7m which is a yield of 6.3% from an investment portfolio of £59m.

7.2 There are no staffing consequences apart from the need for appropriate training.

8 Legal Considerations and Implications

8 .1 This report is part of the Council's legal obligation under the Local Government Act 2003 to have regard to both the relevant CIPFA Codes and the guidance issued by the Department for Levelling Up, Housing and Communities.

9 Risk assessment

9.1 Risks such as security of funds, liquidity, and interest rate risk are considered in the report. The limits and indicators chosen effectively set the Council's risk appetite.

10 Procurement implications

10.1 There are no procurement implications arising from this report.

11. Equalities and Human Rights implications / Public Sector Equality Duty

11.1 There are no direct equality or human rights implications arising from this report. However, it is recognised that the Council's investment choices may have an indirect effect on social issues. The investment management industry has begun to add social issues such as human rights and equality to its criteria for selecting investments and although this is at an early stage officers will work with its advisers as to how it can positively contribute in this area.

12 Environmental Implications

12.1 There are no direct environmental implications attributable to the recommended strategies. However, it is recognised that the Council's investment choices may have an indirect effect on the environment. Officers will work with its advisers as to how it can positively and constructively use its investments to reduce impact on the environment.

13 Other Considerations

13.1 There are no other considerations to take into account.

Appendix A Economic background and interest rate forecast

Economic background

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7 to 2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

In August 2021, the headline 3-month average annual growth rate for wages were 7.2% for total pay and 6.0% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 4.7% while regular pay was up 3.4%. These figures should be interpreted with caution, however, as pay growth is now being impacted by base effects compared to 12 months ago when earnings were first affected by the coronavirus pandemic. Moreover, there has also been a fall in the number and proportion of lower paid jobs, helping to push up the average earnings figure.

CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of around 5%. However the BoE has stated it considers this path may be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

Credit outlook

Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic. CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast:

The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B Treasury Management Strategy

Mid-year position and forecast

1 On 30 September 2022 the Council held no borrowing and £88m of investments at market value; broken down as follows:

	Principal £m	Interest Rate %
Call accounts	4.1	0.3
Money Market Funds – call	13.0	1.7
Money Market Funds – cash plus or short bonds	13.0	0.7
Short-term deposits	29.0	2.0
Pooled Funds - Property	5.6	3.8
Pooled Funds – Multi-Asset	8.2	3.4
Pooled Funds – Equity	7.8	2.9
Pooled Funds – Bonds	5.0	2.6
REIT	2.0	2.3
Net Investments	**87.7**	**2.1**

2 Taking the forecasts within the capital strategy, the balance sheet of the Council can be projected to estimate the amounts available for investments. Below is the current projected analysis of the balance sheet to illustrate the trajectory of the Council's funds.

All figures at year-end £m	**Actual 2021/22**	**Estimate 2022/23**	**Estimate 2023/24**	**Estimate 2024/25**	**Estimate 2025/26**
CFR	33.6	32.7	31.8	30.9	30.0
Less external borrowing	0	0	0	0	0
Internal borrowing	33.6	32.7	31.8	30.9	30.0
Useable reserves, receipts, contributions held	91.7	92.2	86.8	81.5	75.0
Working capital/other balances	25.6	13.7	13.7	13.7	13.8
Estimated Investments	83.7	73.2	68.7	64.3	58.8

3 The Council's strategy has been to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. In spite of the continuation of this, the Council is projected to hold significant investment balances even at the end of the financial year, which is the low point for cash. Investments levels are expected to fall over the period as reserves are used to finance capital spend and developer contributions flow out.

Borrowing Strategy

4 As shown above the Council is not expecting to borrow long term funds although it may need short-term borrowing if short term cash flow issues require it.

5 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except West Sussex County Council Pension Fund)
- Capital market bond investors
- UK Municipal Bond Agency and other special purpose companies created to enable joint local authority bond issues.

6 In addition, capital finance may be raised by the use of leases and hire purchase that are not borrowing, but may be classed as other debt liabilities.

7 The Council has historically raised its long-term borrowing from the PWLB. Changes to PWLB lending rules have added restrictions on local authorities planning to buy investment assets primarily for yield. Although the Council has no plans to borrow it will review its capital plans against the PWLB rules so it does not restrict access to PWLB in the future. In the event longer term borrowing is required the Council would consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

8 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds and lend the proceeds to local authorities. This will be a more complicated than the PWLB due to the need for the Council to provide some degree of guarantee to bond investors and the long lead times. Any decision to use the Agency will therefore be the subject of a separate report to full Council.

9 Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Investment Strategy

10 The Council holds significant funds, representing income received in advance of expenditure plus balances and reserves held. In the past year, the Council's total investments have ranged between £74m and £102m and although the level of reserves is expected to reduce in the longer term, there will still be significant short to medium-term cash flow surpluses leading to larger sums being held than the core reserves of the Council would indicate. The current projections show year-end balances over £55m for the next three years.

11 Both the CIPFA Code and the Department For Levelling Up, Housing And Communities Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council's long-term aim is to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. This may not be possible in the high inflation environment of today but remains the long-term objective.

12 The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. However, realistically the Council does not have the resources to analyse all its investments for ESG considerations as it is a complex area with no clear and easily followed standards or ESG scoring mechanisms to follow. The council will work with its advisers and its fund managers in order to maximise its impact in this area and develop its approach over the medium term.

13 The Council expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and maintain investment income. The Council will also explore the use of secured bonds and other ways to diversify its portfolio.

14 **Business models:** Under the IFRS9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows rather than buying and selling investments and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

15 **Approved counterparties**: The Council may invest with any of the counterparty types in the table below; subject to the cash limits (per counterparty) and the time limits shown (when change from 22/23 limits the prior limit is shown):

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities	10 years	£5m	Unlimited
Governments and government entities rated A- and above	10 years *(5 years)*	£5m *(£4m)*	Unlimited
Secured investments rated AA and above	10 years *(5 years)*	£5m *(£4m)*	Unlimited
Secured investments rated A- to A+	13 months	£5m *(£4m)*	Unlimited
Banks (unsecured) rated A and above	13 months	£3m *(£2.5m)*	Unlimited
Banks (unsecured) rated A-	6 months	£3m *(£2.5m)*	Unlimited
Building societies (unsecured)	13 months	£1.25m *(£1m)*	£10m *(£8m)*
Registered providers (unsecured) Rated A-and above	5 years	£5m *(£4m)*	£10m *(£8m)*
Registered providers unrated(unsecured)	3 years	£4m *(£3m)*	
Money market funds	n/a	£6m (£5m)	£50m
Strategic pooled funds – Property, Equity, Bond and Diversified assets	n/a	£6m *(£5m)*	£30m
Real estate investment trusts	n/a	£5m	£5m
Other Corporates rated A- and above	1 year	£3m *(£2.5m)*	£5m
Unrated corporates	5 years	£50,000	£2m

This table must be read in conjunction with the notes below.

16 **General inflationary increase to limits**: The changes in the table above are based on inflation since the limits were originally set in late 2014. Based on CPI the increase is 25%. Where limits have been increased or newly introduced since 2014 the inflation is not applied.

17 **Credit Rating**: Investment limits are set with reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

18 **Government**: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of

insolvency. On the basis that national and multilateral banks are extremely unlikely to default the time limit has been raised from five years to ten years. This is in line with the Council's adviser's normal limits. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

19 **UK Local Authority:** The Council will consider investments with a UK local government body up to £5m for up to 10 years. The Council is confident that as a sector, local authorities are secure investments in the context of support from Central Government and the legal surcharging framework that guarantees debts will be paid. However, for any investment over six months the financial resilience of the relevant council will be checked with the Council's advisor.

20 **Secured Investments**: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

21 The time limit here has been raised from five years to ten years. This is in line with the Council's adviser's normal limits. It reflects the security of the collateral which is highly rated and on a par with the UK government's rating.

22 **Banks Unsecured**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

23 **Building Societies:** Although the regulation of building societies is no longer any different to that of banks the Council takes additional comfort from building societies' business model. The Council will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. A minimum asset size of £250m applies and limits of £1.25m per Society and £10m in total apply for unrated societies.

24 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services; they retain the likelihood of receiving government support if needed.

25 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee.

26 **Strategic pooled funds:** Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

27 **Real estate investment trusts (REIT):** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. The Council will carry out a detailed appraisal and take expert advice before any investment.

28 **Corporates**: Loans, bonds and commercial paper issued by companies other than banks and registered providers. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £50,000 per company as part of a diversified pool in order to spread the risk widely.

29 **Operational bank accounts:** The Council may incur exposure through its current accounts to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but still subject to the risk of a bank bail-in and balances will therefore be kept below £3m. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. The Council currently banks with NatWest rated A.

30 **Risk Assessment and Credit Ratings:** Credit ratings are monitored by the Council's treasury advisors, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be ended at no cost will be, and

- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

31 Where a credit rating agency announces that a rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then no investments other than call investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

32 **Other Information on the Security of Investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the Council’s credit rating criteria.

33 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In those circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government or with other local authorities. This will reduce investment income earned, but will protect the principal sum invested.

34 **Investment limits**: The Council’s revenue reserves available to cover investment losses were in the region of £24m on 31 March 2022, well above the stated minimum long-term target of £6m. In order that available reserves will cover the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government or Local Authority) will be £5m (increased from £4m). A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Limits have been increased to reflect ‘real’ values’ taking general inflation into account.

Category	Cash limit
Any group of organisations under the same ownership	£5m *(£4m)* per group
Any group of pooled funds under the same management	£12m *(£10m)* per manager
Negotiable instruments held in a broker's nominee account	£22m *(£20m)* per broker
Foreign countries	£12m *(£10m)* per country

Cash flow management

35 The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short-term investments such as those to cover precept payments. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's medium term financial strategy.

Treasury Management Indicators

36 **Security benchmark: average credit rating** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. The benchmark for 2023/24 will be an average credit rating of A unchanged from 2022/23.

37 **Liquidity benchmark:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing. For 2023/24 the benchmark amount available will be £3m unchanged from 2022/23.

Interest rate exposures

38 This indicator is set to control the Council's exposure to interest rate risk. Although no longer part of the formal CIPFA code this indicator is retained for local use. It is an upper limit on the one year revenue impact of a 1% rise or fall in interest rates. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. It is increased to £300,000 from £250,000 to reflect the projected higher cash balances that are likely to persist in the next few years.

	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	-£300,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£300,000

Maturity structure of borrowing

39 This indicator is set to control the Council's exposure to refinancing risk and is really most useful for councils with a portfolio of loans. The upper and lower limits on the maturity structure of fixed rate borrowing are shown below. The Council is not planning to borrow but will set limits to allow flexibility of term and maturity date for any new borrowing.

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within five years	100%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Principal sums invested for periods longer than a year

40 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total long-term principal sum invested to final maturities beyond the period end will be as below unchanged from last year:

	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	£16m	£14m	£12m	£35m

41 Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term. This is a new indicator following the updated CIPFA code.

Other Treasury Management issues

42 **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

43 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

44 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

45 In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

46 **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. The Director of Resources believes this to be the most appropriate status.

Appendix C Investment Strategy

1. This Investment Strategy meets the requirements of statutory guidance widening the coverage beyond strict treasury investments. It focuses on the financial support of local public services by lending to or buying shares in other organisations or its own subsidiaries (service investments) and commercial property investment income.

Service Investments: Loans

2. The Council can lend money to local bodies or its subsidiaries to support local public services and stimulate local economic growth. Historically the Council has only lent to local bodies in very limited circumstances where a significant service outcome is expected. At present only one £300,000 loan to a local body has been made to a community run leisure centre for it to develop a specific local service.

3. There is no intention to increase the use of loans to local bodies and they are expected to be infrequent. The Council will, however, be lending to a subsidiary in the guise of its housing company. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding exposure has been set at £4m which is a £1m increase from last year. This reflects the housing company's projects for next year. The Council controls its subsidiary so is in a position to determine the level of risk it takes on.

4. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

5. **Risk assessment**: The Council assesses the risk of loss before entering into service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help meet and how these will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Director of Resources. All loans will be subject to contract agreed by Head of Legal. All new classes of loans must be approved by full Council and will be monitored by Director of Resources.

Service Investments: Shares

6. The Council does not currently intend to invest in any shares except for in its own housing company where £0.5m has been invested. The overall limit for 2023/24 is £0.5m and no further equity funding is currently planned.

7. **Security:** One of the risks of investing in shares is that they potentially fall in value meaning that the initial outlay may not be recovered. In order to limit this risk upper limits on the sum invested in subsidiaries will be set at the lowest practical level if and when exposure is allowed.

8. **Risk assessment:** The Council would assess the risk of loss before entering into and whilst holding shares by going through an extensive process of risk analysis. The risk analysis will include an assessment of the market that the subsidiary will be active in including the nature and level of competition, how the market will evolve over time, the barriers to entry and exit and any ongoing investment requirements. The Council will use external advisors as thought appropriate by Director of Resources.

9. **Liquidity:** Although this type of investment is fundamentally illiquid, in order to limit this the Council, when it sets a limit in this area, will initially set out the maximum periods for which funds may prudently be committed and how the Council will ensure it stays within its stated investment limits. The life of the housing companies has not been explicitly set but the invested equity will be reviewed at a five-year interval.

10. **Non-specified Investments:** Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's required upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

11. The Council invests in commercial property within the District in order to make a return that will be spent on local public services. These include retail units, business centres, and commercial leisure facilities. They contributed £3.5m of income net of direct costs in 2021/22 providing a significant support to the Council's finances.

12. The table below lists the properties by major category and by whether they are 'legacy' properties, which is taken as having been on the Council's books on 31 March 2007, or the acquisitions and developments since then. The reason for the choice of 31 March 2007 is twofold: firstly, this was the date of the

implementation of asset accounting under the international financial reporting standard that required the Council to keep detail records of historic asset values and secondly it separates out the last decade or so when the recent purchases are reported. It is these more recent purchases which were made to provide commercial income to support the Council's budget which are of more concern to CIPFA and its latest guidance. For the recent purchases the cost records are available whereas the Council does not have comprehensive records of actual purchase costs so the 31 March 2007 values are used.

Property by type £millions	**Actual**	**31.3.2022 actual**		**31.3.2023 expected**	
	Purchase cost or 31 March 2007 value	**Gains or losses**	**Value in accounts**	**Gains or losses**	**Value in accounts**
Retail – legacy	2.7	2.0	4.7	1.8	4.5
Retail – Swan Walk	9.5	-7.6	1.9	-7.7	1.8
Light industrial - legacy	9.3	10.3	19.6	10.3	19.6
Healthcare – legacy	6.5	1.9	8.4	1.9	8.4
Office - legacy	1.3	0.7	2.0	0.7	2.0
Retail - recent	14.6	-5.1	9.5	-5.5	9.1
Light industrial – recent	6.3	3.7	10.0	3.7	10.0
Healthcare – recent	0.6	0.3	0.9	0.3	0.9
Education -recent	1.8	-0.1	1.7	-0.1	1.7
Leisure – recent	1.5	-0.6	0.9	-0.6	0.9
Total	**54.1**	**5.5**	**59.6**	**4.8**	**58.9**

13. In the table above the Swan Walk Centre has been taken out of the legacy retail category as it has a significant effect and has its own distinct history. The major loss in value is due to the movement of the valuation of the Council's equity share in Swan Walk. A true separable purchase price for the Swan Walk equity share is not available as the Swan Walk development was a complex set of multiparty arrangements rather than a simple purchase.

14. The values at year-end are uncertain so no significant movement in values is predicted. Values were recovering well after the pandemic but high interest rates and a wider recession may have an effect. The estimates for the end of 2022/23 above assume values broadly hold their value apart from retail, where recession may have an effect, so a reduction of 5% has been applied.

15. **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

16. The fair value assessment of the Council's investment property portfolio is above the 'purchase' cost which means that the whole portfolio does provide 'security' in terms of the government guidance.

17. The Head of Property and Facilities has considered the prospects for the overall value of the portfolio and bearing in mind it is normal for assets within the portfolio to perform differently depending on market conditions concludes that the best course of action is to hold the assets for the long term as they are sound assets with dependable income streams.

18. The commercial properties are revalued each year-end by an external valuer so should the audited values at the end of 2022/23 fall below their purchase price the Head of Property and Facilities will consider whether the current course of action of holding the assets is appropriate and bring any alternative actions to Council in an update to the Investment Strategy. This is in line with the current government guidance.

19. **Risk assessment:** The Council has no budgeted plans to expand its portfolio in 2023/24 but should there be a change the Council would assess the risk of loss before entering into and whilst holding property investments by :
    - assessing any plans against the CIPFA Code and Government guidance
    - assessing the relevant market including the level of competition, the barriers to entry and exit and future market prospects;
    - using advisors if thought appropriate by the Director of Resources;
    - consulting Policy Development Advisory Group for Finance & Parking
    - taking final comprehensive report on all new investments to Cabinet
    - continually monitoring risk in the whole portfolio and any specific assets

20. **Liquidity:** Clearly property is relatively difficult to sell at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed the Head of Property and Facilities ensures that at least £5m of commercial property could be sold as a going concern within a six-month period.

Loan Commitments and Financial Guarantees

21 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council plans to provide loan commitments up to £4m to its Housing Company subsidiary. It does not plan to provide any guarantees in the near future.

Proportionality

22 The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Strategy. The figures are best estimates bearing in mind the uncertainty due to the challenging economic position. They assume a reasonably robust level of rents, which may be threatened by a prolonged and deep recession.

Proportionality of Investments £m	**2021/22 Actual**	**2022/23 Forecast**	**2023/24 Budget**	**2024/25 Budget**	**2025/26 Budget**
Gross service expenditure	42	44	46	46	46
Investment income	3.5	3.7	3.7	3.8	4.0
Proportion	8%	8%	8%	8%	9%

23 **Capacity, Skills and Culture**

Elected Members and statutory officers: The Council recognises that those elected Members and statutory officers involved in the investments decision making process must have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
- assess individual assessments in the context of the strategic objectives and risk profile of the Council; and
- understand how new decisions have changed the overall risk exposure of the Council.

The Council will ensure that the relevant officers and the Members of Audit Committee and Policy Development Advisory Group for Finance & Parking have appropriate skills, providing training and advisor support where there is a skills gap.

24 **Commercial deals:** The Council will ensure that the Audit Committee, Policy Development Advisory Group for Finance & Parking, Cabinet, and officers negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

25 **Corporate governance:** Any investment decisions will be scrutinised by Senior Leadership Team, Policy Development Advisory Group for Finance & Parking and Cabinet before final approval. The Overview and Scrutiny committee review

all decisions made by the Cabinet. Although after the event, the Committee can make any recommendations to the Council if it sees fit.

Investment Indicators

26 The Council has set the following quantitative indicators to allow elected Members and the public to assess its total risk exposure as a result of its investment decisions.

27 **Total risk exposure:** The first indicator shows the total exposure to potential investment losses.

Total investment exposure £m	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Treasury management investments	84	73	69
Service investments: Loans	0.0	0.4	2.0
Service investments: Shares	0.1	0.3	0.3
Commercial investments: Property	60	59	59
TOTAL INVESTMENTS	144.1	132.7	130.3
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	144.1	132.7	130.3

28 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not have any borrowing the Council's investments are funded by usable reserves and income received in advance of expenditure.

29 **Rate of return received**: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	1.2%	2.5%	3.4%
Service investments: Loans	0%	0%	4%
Service investments: Shares	0%	0%	0%
Commercial investments: Property	5.8%	6.3%	6.3%
ALL INVESTMENTS	3.1%	4.2%	4.7%

30 **Other indicators:** The Department for Levelling Up, Housing and Communities guidance lists other indicators and the Council has selected the indicators below as appropriate. It assumes a steady recovery from the pandemic. The final write off position will take some time to crystallise.

Indicator	**2021/22 Actual**	**2022/23 Forecast**	**2023/24 Forecast**
Debt to net service expenditure ratio	0%	0%	0%
Commercial income to net service expenditure ratio	34%	33%	33%
Income net of direct cost return target	5.8%	6.3%	6.3%
Operating overheads of property section attributable to commercial property as a proportion of net property income	6.6%	6.5%	6.5%
Average Vacancy levels	2%	3%	3%
Tenant over 5% of net property income	6	5	5
Weighted Average Unexpired Lease Term (WAULT)	14yr	14yr	14yr
Bad debts written off	£164,000	£200,000	£200,000