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# Audit Committee

Tuesday, 25th July, 2017 at 5.30 pm  
Hastings & Knepp, Parkside, Chart Way, Horsham

Councillors:

John Chidlow  
Brian Donnelly  
Adrian Lee  
Tim Lloyd

Paul Marshall  
Godfrey Newman  
Stuart Ritchie

You are summoned to the meeting to transact the following business

Tom Crowley  
Chief Executive

## Agenda

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	Page No.
1. Election of Chairman	
2. Apologies for absence	
3. Appointment of Vice-Chairman	
4. To approve the time of meetings of the Committee for the ensuing year	
5. Minutes	3 - 8
<p>To approve as correct the minutes of the meeting held on 22<sup>nd</sup> March 2017 (Note: If any Member wishes to propose an amendment to the minutes they should submit this in writing to <a href="mailto:committeeservices@horsham.gov.uk">committeeservices@horsham.gov.uk</a> at least 24 hours before the meeting. Where applicable, the audio recording of the meeting will be checked to ensure the accuracy of the proposed amendment.)</p>	
6. Declarations of Members' Interests	
<p>To receive any declarations of interest from Members of the Committee</p>	
7. Announcements	
<p>To receive any announcements from the Chairman of the Committee or the Chief Executive</p>	

8.	<b>Audit results report</b> To receive the Audit Results Report for the year ending 31st March 2017 – to be presented by the External Auditor	9 - 28
9.	<b>Letter of representation</b> To receive and approve the Director of Corporate Resources' letter of representation to the External Auditor	29 - 34
10.	<b>Treasury Management Activity and Prudential Indicators 2016/17</b> To receive the report of the Director of Corporate Resources	35 - 44
11.	<b>Statement of Accounts 2016/17</b> To receive and approve the statement of accounts for 2016/17	45 - 104
12.	<b>Risk Management - Quarterly Update</b> To receive the quarterly report of the Director of Corporate Resources on risk management	105 - 116
13.	<b>Internal Audit - Quarterly Update Report</b> To receive the quarterly report of the Chief Internal Auditor	117 - 128
14.	<b>Annual Internal Audit Report 2016/17</b> To receive the annual report of the Chief Internal Auditor for 2016/17	129 - 140
15.	<b>Annual Governance Statement 2016/17</b> To receive the Annual Governance Statement for 2016/17	141 - 158
16.	<b>Urgent Business</b> Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances  To consider the following exempt or confidential information:	
17.	<b>Audit Follow-ups</b> This item involves the likely disclosure of exempt information, as defined in Paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972 ( <i>information relating to the financial and business affairs of any particular person (including the Authority holding that information)</i> )	159 - 164

## **Audit Committee** **22 MARCH 2017**

Present: Councillors: Godfrey Newman (Chairman), Stuart Ritchie (Vice-Chairman), Adrian Lee, Tim Lloyd and Paul Marshall

Apologies: Councillors: John Chidlow and Brian Donnelly

Also Present: Paul King, Audit Director, Ernst & Young  
Hannah Lill, Manager, Ernst & Young

### AAG/41 **MINUTES**

The minutes of the meeting held on 4<sup>th</sup> January 2017 were approved as a correct record and signed by the Chairman.

### AAG/42 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

### AAG/43 **ANNOUNCEMENTS**

Paul King, Audit Director, Ernst & Young advised the Committee of a potential independence issue as his wife was a Director of, and his daughter worked at, a local business 'Jubilee Bakes', which had recently received grant aid from Horsham District Council. However, the matter had gone through the Ernst & Young independence committee/board process and it was considered that the issue was not of sufficient significance as to affect his independence in his capacity as the Council's external auditor. The Director of Corporate Resources had been unaware of the grant application until after it had been awarded.

### AAG/44 **AUDIT PROGRESS REPORT 2017/18**

Paul King, Audit Director, Ernst & Young, gave an overview of plans for the 2016/17 audit. Certification of the 2015/16 housing benefit subsidy claim had been completed in November 2016 and the certification report was a separate item on the agenda for this meeting.

The report indicated that the external auditors had held an audit planning meeting with key officers to discuss significant issues for the audit; how they could work together to improve the accounts production and audit process for 2016/17; and how they would meet the earlier audit deadlines in 2017/18. An outline timetable for the audit was submitted.

The report noted amendments that had been made to the Code of Practice on Local Authority Accounting in the United Kingdom, changing the way the financial statements were presented. The change in the code would require a

new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.

AAG/45 **GRANT CERTIFICATION REPORT 2015/16**

Hannah Lill, Manager, Ernst & Young, presented the outcomes of the certification work on the 2015/16 claim and returns. The claim involved was for the Housing Benefits subsidy (total value £31,743,355).

It was noted that a qualification letter had been issued in respect of the claim due to the identification of errors in the calculation of benefits or compilation of claims, which had an impact on the subsidy paid. The total value of the extrapolations and errors in the qualification letter together with the current year Local Authority (LA) error and administrative delay figure on the claim form breached the LA error and administrative delay threshold. However, the DWP had agreed for the Council to provide further representations for the exclusion of a case which they believed was isolated from the extrapolations. The revised extrapolation together with an isolated error of £202 had resulted in a revised overpayment of subsidy of £234,252 which the DWP was likely to request be repaid in full.

It was noted that the Council had made progress in implementing the five recommendations the external auditors initially made in February 2015 in respect of the 2013/14 grant certification report, and additional actions had been put in place for 2016/17. The report recommended that the Council continued with the implementation of these recommendations and actions.

The Committee noted that Cabinet was currently reviewing options for the provision of the revenues and benefits service and Members had been and continued to be briefed on relevant issues.

AAG/46 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Corporate Resources presented the latest quarterly update of the Corporate Risk Register.

The Senior Leadership Team had reviewed all outstanding actions on the corporate risk register and updated the comments to reflect the current position for each risk. The corporate risk profile highlighted two risks as being high and details of control actions in respect of all risks on the register were submitted. It was noted that risk CRR09 relating to the Council's decision making had now been mitigated and would be removed from the register.

RESOLVED

That the report be noted.

## REASON

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

### AAG/47 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

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

A summary of audit findings in respect of Council Tax and Hop Oast Depot ~ Disposal of Bulky Bags (both of which had achieved an overall audit opinion of substantial assurance) and Debtors, Creditors and Budgetary Control (all of which had achieved an overall audit opinion of satisfactory assurance) was submitted.

It was noted that the audit plan for 2016/17 was currently on schedule.

The Internal Audit Strategy, Internal Audit Plan 2017/18 and the Internal Audit Charter were all submitted for approval.

## RESOLVED

- (i) That the summary of audit and project work undertaken since December 2016 be noted.
- (ii) That the Internal Audit Strategy, Internal Audit Plan for 2017/18 and the revised Internal Audit Charter be approved.

## REASONS

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

### AAG/48 **LOCAL CODE OF CORPORATE GOVERNANCE**

The Director of Corporate Resources reported that the governance framework was an interrelated system that brought together legislative requirements, governance principles and management processes. The Framework would ensure that resources were directed in accordance with agreed policy and according to priorities. It would also ensure that there was sound and inclusive decision-making and that there was clear accountability for the use of those resources in order to achieve effective outcomes for service users and communities.

The Council's Local Code of Governance had been developed in accordance with and was consistent with the CIPFA/SOLACE "Delivering Good Governance in Local Government Framework" (2016 Edition). It described how the Council intended to achieve good corporate governance in an open and explicit way and set out the framework within which the Council conducted its business and affairs.

The Local Code of Corporate Governance would be used as the basis for the Annual Governance Statement, the preparation of which was necessary to meet the statutory requirements of the Accounts and Audit Regulations 2015.

RESOLVED

That the Local Code of Corporate Governance be approved.

REASON

To fulfil the Committee's responsibilities, as set out in its terms of reference.

AAG/49 **URGENT BUSINESS**

There were no urgent matters to be considered.

AAG/50 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED

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

AAG/51 **INTERNAL AUDIT - QUARTERLY UPDATE ON AUDIT FOLLOW-UPS**

The Chief Internal Auditor submitted a report summarising progress since December 2016 on the implementation of actions in respect of audits undertaken in 2016/17, 2015/16 and 2014/15.

RESOLVED

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

REASON

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

AAG/52 **BULKY WASTE (SPECIAL COLLECTIONS)**

The Chief Internal Auditor submitted a report summarising the findings from a recent audit of bulky waste (special collections) which had achieved an overall audit opinion of no assurance.

The Head of Waste, Street Scene & Fleet advised the Committee of actions that had been and were being taken to address the issues identified.

It was noted that Internal Audit would undertake a further review of this area once the appropriate procedures and controls had been implemented.

RESOLVED

That the audit findings and the actions proposed to address the control weaknesses be noted.

REASON

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

*The meeting closed at 6.30 pm having commenced at 5.30 pm*

CHAIRMAN

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# Horsham District Council

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2017

July 2017

Ernst & Young LLP



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

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

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

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

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

## 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the [Audit] Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2016/17 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

Status of the audit	<p>We have substantially completed our audit of the financial statements of Horsham District Council for the year ended 31 March 2017. Subject to satisfactory completion of the following outstanding items we will issue an audit opinion in the form which appears in Appendix E:</p> <ul style="list-style-type: none"> <li>• completion of subsequent events review;</li> <li>• review of the final statements; and</li> <li>• receipt of the signed management representation letter</li> </ul> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We have performed the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We had no issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>We have identified two unadjusted audit differences within the draft financial statements, which management have chosen not to adjust. We ask the Audit Committee to consider approving management's rationale as to why these corrections have not been made and, if approved, include this in the Letter of Representation. Appendix A to this report sets out the uncorrected misstatements. We do not consider these to be material to our audit opinion.</p>
Scope and materiality	<p>In our audit plan presented at the 4 January 2017 Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £1.550 million. We have reassessed this based on the actual results for the financial year and have decreased this amount to £1.396 million due to the reduction in Council expenditure in 2016/17 compared to 2015/16. The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with prior years. .</p> <p>The threshold for reporting audit differences which impact the financial statements has also decreased from £77,500 to £69,800.</p> <p>We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas, the areas identified and audit strategy applied include:</p> <ul style="list-style-type: none"> <li>• Remuneration disclosures including any severance payments, exit packages and termination benefits: Strategy applied: no specific testing threshold applied, the impact of any issues to be considered individually</li> <li>• Related party transactions. Strategy applied: no specific testing threshold applied, the impact of any issues to be considered individually</li> </ul> <p>We carried out our work in accordance with our Audit Plan.</p>
Significant audit	<p>We identified the following audit risks during the planning phase of our audit, and reported</p>

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risks	<b>these to you in our audit plan:</b> <ul style="list-style-type: none"><li>• Risk of management override.</li></ul> The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.
Other reporting issues	We have no other matters we wish to report.
Control observations	During the audit, we identified an observation in relation to management's financial processes and controls. This is set out in the "Assessment of control environment" section of this report.

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

Paul King

Executive Director  
For and on behalf of Ernst & Young LLP

## 2. Responsibilities and purpose of our work

### The Council's responsibilities

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

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

### Purpose of our work

Our audit was designed to:

- Express an opinion on the 2016/17 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

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

### 3. Financial statements audit

#### Addressing audit risks

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

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

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of management override</b></p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Reviewed accounting estimates for evidence of management bias; and</li> <li>• Evaluated the business rationale for any significant unusual transactions.</li> </ul>	<p>Our audit work found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.</p>

#### Other matters

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

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

We wish to report the following matter:

- The Council produced excellent financial statements and working papers with minimal audit amendments required.

## Control themes and observations

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

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

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Description	Impact
<p>Following the departure of the Reconciliations Officer, Internal Audit identified that the reconciliation differences on the bank reconciliation were not being investigated and resolved early enough.</p>	<p>Unresolved bank reconciliation differences may mean errors in other financial systems are not identified on a timely basis.</p> <p>Delays in resolving issues may result in errors being repeated or compounded.</p> <p>This did not have a significant impact on the audit.</p> <p><i>Recommendation:</i></p> <ul style="list-style-type: none"> <li>• Each month's reconciliations should be completed before the end of the following month.</li> <li>• Training should be provided to staff with the appropriate accounting knowledge so that the bank reconciliation can be completed by more than a single member of staff.</li> </ul>

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

## Request for written representations

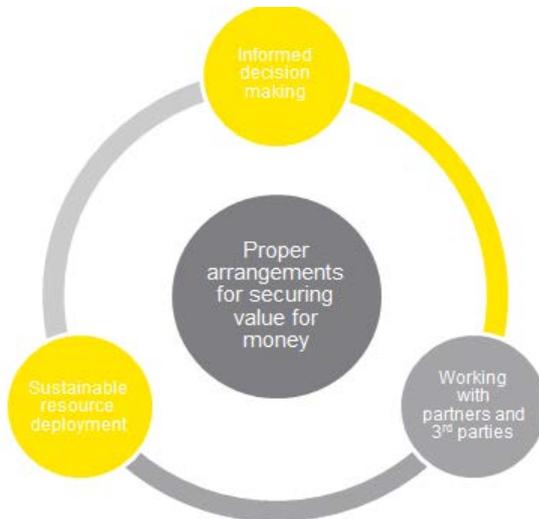
We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

## Whole of Government Accounts

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

We have nothing to report.

## 4. Value for money



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

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

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

### Overall conclusion

We identified one significant risk in relation to these arrangements:

- **Deploying resources in a sustainable manner**

Local government continues to face considerable financial challenges and Horsham District Council is not immune from these pressures.

We are aware from our review of the Council's budget monitoring for 2016/17 to quarter 2 that it is forecasting a budget underspend of around £94,000 for the year. The Council is also planning to set a balanced budget for 2017/18 and 2018/19.

However, the financial position in future years is far more challenging and achieving financial balance will become progressively harder. The current medium term financial plan is predicting significant budget gaps over the remaining years of the Medium Term Financial Strategy (MTFS) to 2021 of £0.5 million in 2019/20 and £2.3 million in 2020/21 before remedial action.

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

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

Our key findings in relation to this risk are:

- The Council achieved a greater surplus in 2016/17 than initially budgeted and its financial position remains sound at 31 March 2017. The Council has a good recent record of identifying and making savings, and in meeting its budget. Despite initially predicting budget gaps for 2015/16, 2016/17 and 2017/18, the Council were able to set balanced budgets for all periods, including a small predicted surplus. The current MTFS also shows a surplus or break-even position, through to 2019/20, which is a significant improvement from the previous MTFS in 2015/16 which showed forecast budget gaps over the three years, increasing from £1.4 million in 2017/18 to £3.8 million in 2019/20.
- The MTFS covers the four year period 2017/18 to 2020/21 and sets out key planning assumptions and resources projections together with information about key areas for capital and revenue investment and financing and treasury management strategies. The key driver of the financial projections in the MTFS continues to be the impact of reductions in central government funding over the medium term. The estimates reflected in the MTFS include significant reductions in both Revenue Support Grant and specific grants over the period. There is explicit recognition that there remains some uncertainty over the timing and scale of future funding reductions.
- Although we remain satisfied that the MTFS has been prudently updated in the light of the current economic climate and that the assumptions underpinning it remain reasonable, the uncertainty inherent in the funding from Central Government mean that the Council cannot reduce its efforts to seek out methods to generate savings without impacting on services and retaining a sustainable financial position.

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

## **Other matters to bring to your attention**

We have no other matters to bring to your attention.

## Appendix A – Uncorrected audit differences

The following differences, which are greater than £69,800, have been identified during the course of our audit and have not been considered material by management or by us for adjustments. We are bringing them to the Committee's attention to enable you to form your own view on these items.

### Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement (CIES) (Decrease) / Increase £000
Creditors - sundry	338	
CIES - Revs and Bens line	-	338

The sundry creditor was left over when the new system of business rates retention was introduced. This accrual should be written back to the Council's income and expenditure account revenues and benefits line.

Creditors - sundry	96
Capital adjustment account	(96)

These are historic unmatched capital expenditure accruals that were raised, and paid, but the creditor accruals weren't reversed therefore overstating the creditors balance. These are capital accruals and therefore do not affect the CIES.

Cumulative effect of unadjusted differences	(338)	338
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## Appendix B – Corrected audit differences

The following corrected differences, which are greater than £1,047,000, have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

### Disclosures.

Disclosure	Description of difference
Financial Instruments	A late adjustment was made to adjust pooled investments from short term to long term on the balance sheet. This change was not correctly reflected in the financial instruments note 14. This resulted in long term and short term financial assets available for sale and loans and receivables being incorrectly stated by £11.8 million and £10 million respectively. There was no change to the totals in the note.

## Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 20 December 2016. For transparency, we reported to members at the Audit Committee meeting on 22 March, that wife of the Executive Director for the audit is a Director of a Community Interest Company (CIC) which received a small grant from the Council during the year. The Executive Director had no involvement with the application for the grant and was not aware of it until after it had been awarded to the CIC. We are satisfied that this did not affect our independence.

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

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

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 25 July 2017.

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

## Appendix D – Auditor fees

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

Description	Proposed final Fee 2016/17 £	Scale Fee 2016/17 £	Variation comments
<b>Total Audit Fee – Code work</b>	50,094	50,094	
<b>Certification of claims and returns</b>	12,383	12,383	

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

We confirm we have undertaken any non-audit work outside of the PSAA's requirements.

## Appendix E – Draft audit report

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

#### Opinion on the Authority's financial statements

We have audited the financial statements of Horsham District Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

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

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

#### Respective responsibilities of the Director of Corporate Resources and auditor

As explained more fully in the Statement of the Director of Corporate Resources Responsibilities set out on page 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 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Horsham District Council as at 31 March 2017 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 2016/17.

### **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects

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

#### **Authority's responsibilities**

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

#### **Auditor's responsibilities**

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the Horsham District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that 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 2017.

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

### **Conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Horsham District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### **Certificate**

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

Paul King

for and on behalf of Ernst & Young LLP, Appointed Auditor

Southampton

TBC

### **The following foot note should be added to the audit report when it is published or distributed electronically:**

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

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

## Appendix F – Required communications with the audit committee

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

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶</li> </ul>	Audit Results Report
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Horsham District Council's ability to continue as a going concern for the 12 months from the date of our report
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	By correspondence with the Chair of the Accounts, Audit and Governance Committee dated 5 April 2017 Audit results report
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters we wish to report.

Required communication	Reference
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Management has not refused for us to request external confirmations.
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ 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</li> </ul>	<p>We have not identified any material instances of non-compliance with law and regulation.</p> <p>We made written enquiries to managements and those charged with governance. We also have also received representations as part of the letter of management representation. No instances of material non-compliance have been disclosed by either management or those charged with governance.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Plan and Audit Results Report
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	Audit Results Report
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	Audit Plan and Audit Results Report
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	Annual Certification Report – to be issued January 2018

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## Letter of representations: Horsham District Council

25 July 2017

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



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 2017. 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 2017 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 2016/17.

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

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

### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
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 2016/17. 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 2016/17, that are free from material misstatement, whether due to fraud or error.

## Letter of representations: Horsham District Council

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because it impacts in a large number of areas throughout the statements.
6. We believe that the uncorrected misstatement identified in the prior year rectifies itself during 2016/17 as it related to a provision as at 31 March 2016 and as such no adjustment is required.

### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

### **C. Compliance with Laws and Regulations**

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

### **D. Information Provided and Completeness of Information and Transactions**

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

## Letter of representations: Horsham District Council

3. We have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 25 July 2017.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### **E. Liabilities and Contingencies**

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

### **F. Subsequent Events**

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

### **Use of the Work of a Specialist**

When the Council has used the work of a specialist, we may include the following representation:

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

# Letter of representations: Horsham District Council

aware of any matters that have had an effect on the independence or objectivity of the specialists.

## **Estimates**

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

## **Retirement benefits**

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

## **Signed on behalf of Horsham District Council**

I confirm that this letter has been discussed and agreed by the Audit Committee on 25 July 2017

Signed:

Name: Jane Eaton  
Position: Director of Corporate Resources  
Date: 25 July 2017

Name: Stuart Ritchie  
Position: Chairman, Audit Committee  
Date: 25 July 2017

Unadjusted misstatements: Balance sheet and Statement of comprehensive income and expenditure

2016/17

Item of account	Balance sheet (decrease) / increase £000	Comprehensive I&E statement (decrease) / increase £000
Creditors - sundry	(338)	
CIES - Revs and Bens line		338
The sundry creditor was left over when the new system of business rates retention was introduced. This accrual should be written back to the Council's income and expenditure account revenues and benefits line.		
Creditors – sundry	(96)	
Capital adjustment account	96	
These are historic unmatched capital expenditure accruals that were raised, and paid, but the creditor accruals weren't reversed therefore overstating the creditors balance.		
Cumulative effect of unadjusted differences	(338)	338

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## Report to Audit Committee

25 July 2017

By the Director of Corporate Resources

### INFORMATION REPORT

Not exempt



Horsham  
District  
Council

## Treasury Management Activity and Prudential Indicators 2016/17

### Executive Summary

This report covers treasury activity and prudential indicators for 2016/17. At 31 March 2017, the Council's external debt was £4m (£4m at 31 March 2016) and its investments totalled £50.1m (£31.8m at 31 March 2016) including call accounts and Money Market Funds.

During 2016/17 the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.605m (£0.288m in 2015/16) was earned on investments, an average return of 1.2% (0.8% in 2015/16). There was one instance when the single institution limit of £2.5m was breached overnight; otherwise all limits and indicators were within estimates.

### Recommendations

The Committee is recommended to:

- i) Note the Treasury Management stewardship report for 2016/17.
- ii) Note the actual prudential indicators for 2016/17.

### Reasons for Recommendations

- i) The annual treasury report is a requirement of the Council's reporting procedures.
- ii) This report also covers the actual Prudential Indicators for 2016/17 in accordance with the requirements of the relevant CIPFA Codes of Practice.

### Background Papers

"Treasury Management Strategy 2016/17" - AAG Committee 6 January 2016

"Budget 2016/17 and MTFs to 2019/20" - Council 24 February 2016

"Treasury Management Activity and Prudential Indicators 2015/16 and request for revision of the 2016/17 Treasury Management Strategy" - AAG Committee 13 September 2016

"Budget for 2017/18 and Council Tax" - Council 15 February 2017

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

**Wards affected:** All

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

## Background Information

### 1 Introduction

- 1.1 This report covers treasury management activity and prudential indicators for 2016/17. It meets the requirements of the 2011 editions of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 1.2 In line with the CIPFA Prudential Code for Capital Finance in Local Authorities the Council adopts prudential indicators for each financial year and reports on performance relative to those indicators. This requirement is designed to demonstrate that capital spending is prudent, affordable and sustainable and that treasury management decisions are taken in accordance with good professional practices. This report compares the approved indicators with the outturn position for 2016/17. Actual figures have been taken from or prepared on a basis consistent with, the Council's statement of accounts.
- 1.3 The original prudential indicators for 2016/17 together with Treasury Management Strategy 2016/17 were agreed by Council on 24 February 2016 having been approved by this Committee on 6 January 2016. The strategy was amended by Council on 19 October 2016 after approval by this Committee on 13 September 2016. The amendments were to increase limits on long term and pooled fund investments.

### 2 The Council's Capital Expenditure and Financing 2016/17

- 2.1 This is one of the required prudential indicators and shows total capital expenditure for the year and how this was financed. The estimates include revisions to the original indicators approved by the Council on 15 February 2017 as a part of budget report.

2016/17	Actual £000	Estimate £000	Variance £000
Total capital expenditure	9,344	10,201	-857
Resourced by:			
Capital receipts and third party contributions	(4,311)	(5,033)	722
Capital grants	( 689)	(513)	(176)
Revenue reserves*	(770)	(1,119)	349
<b>Unfinanced capital expenditure (additional need to borrow)</b>	<b>3,574</b>	<b>3,536</b>	<b>38</b>

\* Includes use of New Homes Bonus

- 2.2 The capital spend in 2016/17 was under the budget as revised in the 2017/18 budget report and well below the original 2016/17 budget which was £19m. The underspend resulted in a reduced need for financing when compared with the estimate.

### 3 The Council's Overall Borrowing Need

- 3.1 The Council's underlying need to borrow is termed the Capital Financing Requirement (CFR). It represents the accumulated net capital expenditure which has not been financed by revenue or other resources. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources.
- 3.2 The Council is required to make an annual revenue charge, the Minimum Revenue Provision (MRP), to reduce the CFR – effectively a repayment of the borrowing need. The Council's 2016/17 MRP Policy (as required by DCLG Guidance) was approved on 24 February 2016 as a part of the 2016/17 Budget report.
- 3.3 The Council's CFR for the year is shown below, and represents a key prudential indicator because it is a measure of the Council's underlying indebtedness. The movement in the CFR is close to the estimate.

Capital Financing Requirement	Actual £000	Estimate £000	Variance £000
Opening balance 1 April 2016	13,255	13,256	-1
plus unfinanced capital expenditure	3,574	3,536	38
less Minimum Revenue Provision	(837)	(835)	(2)
<b>Closing balance 31 March 2017</b>	<b>15,992</b>	<b>15,957</b>	<b>35</b>

### 4 Treasury Position at 31 March 2017

- 4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Director of Corporate Resources can manage the Council's actual borrowing position by either borrowing to the level of the CFR or choosing to utilise other available funds instead, sometimes termed under-borrowing. The Council is under-borrowed as its external debt amounts to only £4m.
- 4.2 Although the Council is under-borrowed relative to its CFR, it also holds investments and the summary treasury position on the 31 March 2017 compared with the previous year is shown below. This is a snapshot of investments on the date and will not necessarily be equal to the whole year average figures reported below.

Treasury position	31 March 2017		31 March 2016	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Rate Debt	4.0	3.4%	4.0	3.4%
Investments	(50.1)	1.5%	(31.8)	0.9%
<b>Net borrowing position</b>	<b>(46.1)</b>		<b>(27.8)</b>	

- 4.3 Returns continued at historically low levels during 2016/17 reflecting the continuing low interest rates being offered by counterparties who are a good credit risk. The current outlook points to a continuation of low rates with no significant increases expected in the medium term. The use of pooled funds including a diversified selection of equity, bonds and property has lifted income to some extent but their use is limited by the desired overall risk profile of the Council's investments.

## 5 Prudential Indicators

- 5.1 **Gross Debt and the CFR** - In order to ensure that borrowing levels are prudent over the medium term the Council's external debt must only be for a capital purpose. Gross debt should not therefore, except in the short term, exceed the CFR for 2016/17 plus the expected CFR movement over 2017/18 and 2018/19. As external debt was £4m and the CFR is £16m and is not planned to decrease over the relevant future period the Council has complied with this prudential indicator.
- 5.2 The **Authorised Limit** is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The Council set the Authorised Limit at £15m for 2016/17. The table below demonstrates that during 2016/17 the Council has maintained gross borrowing within its Authorised Limit.
- 5.3 The **Operational Boundary** is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached. This indicator was set at £4m and gross borrowing was at £4m for the whole year.
- 5.4 **Actual financing costs as a proportion of net revenue stream** - This indicator shows the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. This is a gauge of the affordability of capital spend. As shown in the table below, the actual indicator was within the estimate. Financing costs were reduced on estimate due to healthier than estimated investment income.

	2016/17
Authorised Limit	£15.0m
Operational Boundary	£4.0m
Maximum gross borrowing position in the year	£4.0m
Minimum gross borrowing position in the year	£4.0m
Financing costs as a proportion of net revenue stream	Actual 2% Estimate 4%

- 5.5 **Upper limits on variable and fixed rate exposure** – These indicators identify maximum limits for variable and fixed interest rate exposures. The table below shows the actual maximums in 2016/17. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. The variable exposure is exclusively investments and thus appears as a negative figure as the indicator shows the net debt position.

	Limit	Actual	Met?
Upper limit on fixed rate exposure	£15m	£4m	✓
Upper limit on variable rate exposure	£0m	-£28m	✓

- 5.6 **Maturity structures of borrowing** - These gross limits are set to reduce the Council's exposure to large fixed rate loans falling due for refinancing. As the Council only has one debt and has set the percentage range to allow it freedom to refinance the debt there is no danger of not meeting this indicator. The table below shows the 2016/17 estimates and end of year position.

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

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

2016/17	Indicator	Actual Position
Maximum principal sums invested > 364 days	£12m	£4m

### **Economic and treasury management context for 2016/17**

- 5.8 The Council's Treasury Management activities are critically affected by what is happening in the general economy which is subject to continuing uncertainty. The Council has engaged Arlingclose Ltd to advise on various aspects of Treasury Management and a part of that advice, a commentary on the economic background and the finance sector during 2016/17, is included as the appendix to this report.

### **Debt management activity during 2016/17**

- 5.9 No new borrowing was undertaken so the Council's only debt was £4.0m from Public Works Loan Board borrowed on 23 April 2009 for 10 years at 3.38%.
- 5.10 As the CFR shown above is close to £16m the Council is using its internal resources in lieu of borrowing. This lowers overall treasury risk by reducing both external debt and temporary investments and was judged to be the best way of funding capital expenditure. Current borrowing costs are historically low (e.g. PWLB 50 year loan under 2.5%) and our advisers prediction is that they will not be increasing significantly in the next three years.

## **6 Investment activity in 2016/17**

- 6.1 The Council's objectives are to give priority to the security and liquidity of its funds before seeking the best rate of return. The majority of its surplus cash is therefore held as short-term investments with the UK Government, local authorities, and highly credit-rated banks, building societies and pooled funds. The Council's Treasury Management activity fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Treasury Management Code of Practice and the DCLG Investment guidance. These require the Council to approve an investment strategy before the start of each financial year and all investment activity during the year conformed to this strategy apart from breach of single institution limit detailed below.
- 6.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- 6.3 In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Council diversified into more secure and higher yielding asset classes during 2016/17. £11.8m that was available for longer-term investment was moved from bank and building society deposits into covered bonds and pooled property, bond and equity funds.
- 6.4 The Council's longer term cash balances comprise revenue and capital reserves and its core cash resources are shown in the table below. The Council is borrowing internally to cover its CFR which reduces the funds to be invested by £11.5m (2015/16 £10m).

<b>Balance Sheet Resources</b>	<b>31 March 2017 £m</b>	<b>31 March 2016 £m</b>	<b>31 March 2015 £m</b>
Revenue reserves	20.0	17.3	16.1
Other reserves and provisions	14.4	3.5	2.4
Usable capital receipts	5.3	5.8	0
Unapplied capital contributions	13.2	8.6	9.4
Working capital	8.6	5.7	4.8
<b>Total</b>	<b>61.5</b>	<b>40.9</b>	<b>32.7</b>

- 6.5 **Yield** - The investment income budget for the year 2016/17 was £0.275m (2015/16 £0.249m). The actual interest received was £0.605m (2015/16 £0.288m). Cash balances were well above budget due to slipping of capital spend, revenue underspending and higher receipts of developer contributions. Pooled funds boosted income while otherwise the returns available from 'good' quality counterparties remained at historic lows. An overall return of 1.2% (0.8% in 2015/16) was achieved; the benchmark, which is the average LIBID 7 day rate, was 0.20% (0.45% in 2015/16).
- 6.6 **Security** – A benchmark is used as a way of expressing the credit risk of the whole portfolio of counterparties that the Council invests with. The Council has adopted a benchmark of an equivalent credit rating of A- against which the portfolio was assessed at the end of each month. The portfolio average credit rating was A+ for the complete year which is two notches above the benchmark.
- 6.7 **Liquidity benchmark** – The Council needs to ensure it has a sufficient level of liquidity so it has funds available when necessary. To ensure liquidity the Council set a benchmark of the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. For 2016/17 the benchmark amount was £3m. The actual funds available were far in excess of the benchmark for the whole year; the lowest amount available overnight was £6.2m with another £9.4m available within a week.
- 6.8 **Compliance with strategy** – There was an instance when the limit on single institution investments was breached. The circumstances are detailed below.
- 6.9 On 29 September the Council's balance with its own Bank NatWest was £2.58m which exceeded the limit of £2.5m. The Council had been expecting to make a large payment of just over £1.7m at the time so more funds were kept with the bank than usual in readiness. The payment was not made on that date, but the balance was not reduced in time before the end of business for the day. This was rectified the next morning. The breach of the limit has already been reported to this Committee on 4 January 2017 in the Treasury Management mid-year report but it is included here for completeness.

- 6.10 **Unrated Pooled funds** - 2016/17 was the first year that unrated pooled funds comprising equity, bonds and property were used. During the year £10m was invested in these funds yielding £0.290m with an average return of 4.5%. The rest of the investments yielded an average of 0.7% so there is a significant increase in yield for this class of investment. It follows that increased return brings an increase in risk and in this case the risk is to the capital value of the investments and at the end of the year the capital value of investments was £6,000 below the initial investment. However, it should be remembered that these investments are longer term so the current small capital loss should not be overemphasised.
- 6.11 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 are regularly reviewed. In light of their stronger income performance and the Council's latest cash flow forecasts, investment in these funds has been maintained for the 2017/18 financial year.
- 7 **Outcome of consultations**
- 7.1 The views of the Council's treasury management consultants, Arlingclose Ltd, have been incorporated in all aspects of the above report.
- 8 **Resource consequences**
- 8.1 This report provides information only; no staffing or financial resources are required as a result of it.
- 9 **Other considerations**
- 9.1 There are no consequences in respect of legal, Crime & Disorder; Human Rights; Equality & Diversity and Sustainability.

## Appendix

**Economic Background in 2016/17:** Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. The UK Government triggered Article 50 of the Lisbon Treaty on 29 March 2017, setting in motion the 2-year exit period from the EU.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

**Financial markets:** Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23 June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31 March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016/17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016/17.

**Credit background:** Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Council's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31 December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Council's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

On the advice of Arlingclose, new investments with Deutsche Bank and Standard Chartered Bank were suspended in March 2016 due to the banks' relatively higher credit default swap (CDS) levels and disappointing 2015 financial results. The Council held a Standard Chartered Bank CD (Certificate of Deposit) bought in February 2016 until maturity in early August 2016. The sale of the CD was considered but on balance it was felt that the risk of default was low enough to keep hold of the investment until its maturity. Standard Chartered Bank was reintroduced to the counterparty list in April 2017 following its strengthening financial position, but Deutsche Bank was removed altogether from the list.

In July, following a review of unrated building societies' annual financial statements, Cumberland, Harpenden and Vernon building societies were removed from the Council's list due to deterioration in credit indicators. The maximum advised maturity was also lowered for eleven other societies from 6 months to 100 days due to the uncertainty facing the UK housing market following the EU referendum.

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## Report to Audit Committee

25 July 2017

By the Director of Corporate Resources

**DECISION REQUIRED**



**Horsham  
District  
Council**

Not Exempt

### Statement of Accounts 2016 /17

#### Executive summary

It is a legal requirement of the Accounts and Audit (England) Regulations 2016 that the Statement of Accounts is approved by a resolution of the Council or the relevant Committee of the Council by 30 September 2017. The Scheme of Delegation to Committees within the Council constitution (Part 3.2) delegates the responsibility to the Audit Committee to consider and approve the Council's statement of accounts.

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

#### Recommendations

That the Committee is recommended:

- i) To approve the 2016/17 Statement of Accounts

#### Reasons for recommendations

- i) It is a requirement of the Accounts and Audit (England) Regulations 2016 that the Statement of Accounts are approved by 30 September 2017.
- ii) The external auditors plan to issue an unqualified audit opinion on the financial statements for 2016/17.

**Background papers:** none

**Wards affected:** All

**Contact:** Sam Wells, Principal Accountant, 01403 215309

Dominic Bradley, Head of Finance, 01403 215302

## **Background Information**

### **1 Introduction and background**

- 1.1 It is a requirement of the Accounts and Audit (England) Regulations 2016 that the statutory Statement of Accounts is approved by a resolution of the Council or the relevant Committee of the Council by 30 September 2017. Under The Scheme of Delegation to Committees within Part 3.2 of the Council constitution, the matter of considering and approving the statement of accounts has been delegated to the Audit Committee. This report provides background information to the financial statements.
- 1.2 The financial statements have been prepared following the requirements of the CIPFA Code of Practice on Local Authority Accounting 2016/17 which are based on International Financial Reporting Standards. The accounts have been subject to audit by Ernst and Young LLP who intend to issue an unqualified opinion.

### **2 Relevant Council policy**

- 2.1 The Council is required to produce financial statements under the Accounts and Audit (England) Regulations 2016.

### **3 Details**

- 3.1 The Statement of Accounts 2016/17 are attached to this report.
- 3.2 The audit identified and reported two unadjusted misstatements, relating to two historic balances that have not been actioned. The letter of representation confirms management's view that the effects of these unadjusted differences are immaterial, both individually and cumulatively. These have not been corrected because it impacts in a large number of areas throughout the statements.
- 3.3 As a result of these findings, Finance is planning to undertake a complete balance sheet review for balances that have remained static for more than one year during the transition to the new financial management system. Any adjustments will be processed during 2017/18.
- 3.4 The audit also identified one adjusted misstatement. A late adjustment was made in the unaudited statements to adjust pooled investments from short term to long term in the balance sheet. The corresponding presentation of these investments between short term and long term categories in the Financial Instruments note was not updated correctly for this adjustment. The investment total in the financial instruments notes was however correctly stated.
- 3.5 The bank reconciliation control deficiency reported by the auditor is an ongoing issue that is being managed until transfer to the new financial management system in September 2017. The new financial system will auto-match transactions going through the bank to the ledger on an individual transactional basis which will focus attention on the residual lines which do not match. This will make it easier to identify the unresolved bank reconciliation differences at an earlier point and the automation in the process will also free up time to address the unreconciled items.

### **4 Next steps**

- 4.1 The committee is asked to approve the Statement of Accounts 2016/17.

## **5 Outcome of consultations**

- 5.1 No consultations were required. Audit Committee Members were briefed on the updated unaudited accounts on 6 July 2017.

## **6 Other courses of action considered but rejected**

- 6.1 Not applicable.

## **7 Resource and legal consequences**

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

## **8 Risk assessment**

- 8.1 There are reputational risks to the Council if the accounts are not approved by the statutory deadline of 30 September 2017.

## **9 Other considerations**

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

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**Horsham  
District  
Council**

# Statement of Accounts 2016/17

Audited

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# Narrative Statement

## INTRODUCTION

Welcome to Horsham District Council's Statement of Accounts for 2016/17. 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 2016 to 31 March 2017 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 2016/17.

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

## ORGANISATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

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

There is a strong administrative and service sector presence in the district alongside a retail sector with more than 4,000 commercial premise based businesses plus a number of small businesses run from residential properties. The value of the rateable value listing ended 2016/17 at £104m which was £0.3 m higher than at the start of the year, although it fluctuated during the year and was at one point £0.8m below the 31 March 2016 value.

Central Government's revenue funding in the form of Revenue Support Grant and Business Rates Spending baseline fell by £710k from 2015/16 levels, which was just over a 20 percent fall. In the light of continued financial pressure from government cuts and the impact of new legislation the Council has been focusing on strengthening resilience in its operations and policies including financial and staffing resilience. The Council's excellent record of sound financial management puts the Council in a strong position to withstand the financial challenges it faces in the future.

## GOVERNANCE

The District Council has adopted the Cabinet model of governance with a Leader, Deputy Leader and Cabinet Members each with responsibility for one aspect of the Corporate Plan. Much decision making is delegated to Cabinet Members or Committees but major items of policy remain the responsibility of the Cabinet or the whole Council. The whole Council approves the Council's expenditure plan and the budget, as part of the process of setting the Council Tax each year. The Council has 44 elected Councillors.

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

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

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

## PERFORMANCE DURING 2016/17

The Council monitors financial and non-financial performance indicators on a monthly basis. It measures and publishes its performance using a set of 42 key performance indicators which cover many of the Council's key services. The final figures for the 2016/17 year were reported to the Overview and Scrutiny Committee on 24 July 2017. The Council also reviewed delivery of the Corporate Plan objectives at this meeting. The report showed a high level of achievement in the Corporate Plan for the 2016/17 period. A link to these reports is below:

[Overview and Scrutiny 24 July 2017 meeting](#)

These indicators show positive performance across most areas. An analysis of performance demonstrates that 72.5% (previous year 60%) of indicators met or exceeded targets set; 20% (32.5%) were close to target, and 7.5% (7.5%) fell outside of the target range. Where comparable, 26 (18) indicators improved over the previous year, 9 (14) worsened and for three there was no change.

Positive improvement over the previous year was seen in levels of income across planning, parking and trade waste as part of Medium Term Financial Strategy (MTFS); the processing of major and other planning applications; complaints about our services have reduced further and compliments increased; sickness levels falling to 7 days per FTE continue to improve; the number of planning appeals costs awarded have reduced and the number of planning appeals allowed with the adoption of the Horsham District Local Plan HDPF has reduced.

Three performance indicators were classed as outside the target range.

- The Council successfully defended a number of planning appeals, assisted by the stronger policy position with the adoption of the (HDLP) in November 2015. This resulted in lower planning appeal costs being awarded against the Council, the lowest since 2012/13, but is measured against a target of zero.
- Parking utilisation figures were below target for a 7 day period, but have a peak period of occupancy that vastly exceeds the target.
- Swimming attendances fell in year as a result of the closure of the Billingshurst pool for repairs.

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

### Employees

The number of permanent employees has fallen to 417.2 FTE at 31 March 2017 (422.4 at 31 March 2016). Turnover of staff during the year was 11.8% (12.4% in 2015/16), which was below the 12.5% target. There were 7 sickness days per FTE employee, which compares to 7.7 days at 31 March 2016 and is below the 8 day target. No trends needing intervention were identified.

### Local taxpayers

During the year, the Council collected £90.97m 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 98.74% of the total amount due which was slightly under target of 98.8%, but with the aim of collecting the majority of the remainder in the first few months of 2017/18.

### 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 2017. A total of £2.31m (£2.23m in 2015/16) has been allowed against debts of £3.54m (£3.49m in 2015/16) outstanding as at 31 March 2017. The Council's share of the allowance is £281k (£274k in 2015/16).

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 2017. A total of £1.54m (£1.40m in 2015/16) has been allowed against debts of £2.81m (£2.96m in 2015/16) outstanding as at 31 March 2017. The Council's share of the allowance is £617k (£562k in 2015/16).

In the year 2016/17, there has been £586k of uncollectable amounts written off (£227k in 2015/16).

A provision for appeals made against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2017 has been made of £5.32m (£5.16m in 2015/16). The Council's share (40%) is £2.13m (£2.06m in 2015/16), as detailed in the Provisions note 18.

## BUDGET 2016/17

In 2016/17, the total expenditure incurred by the Council was £66m; 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 2016/17 of £12.55m at the formal meeting on 24 February 2016.

	<b>£000</b>
Net expenditure	<b>12,546</b>
Funded by:	
New Homes Bonus Grant	1,166
Council Tax	8,249
Revenue Support Grant	825
Transitional Grant	134
Business Rates baseline funding	1,878
Additional Business rates	400
Payment to parishes	(49)
Collection fund surplus	120
Total funding	12,723
(Surplus) / Deficit	<b>(177)</b>

## 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 2016/17, 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 2017 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 2016/17

The Council monitors its expenditure and income against budget on a monthly basis and reports to Cabinet regularly and to its Finance and Performance Committee quarterly. The revenue and capital outturn report for 2016/17 was reported to Scrutiny and Overview Committee on 24 July 2017.

The variance against original budget was reported as a surplus of £0.776m. There was £0.088m of revenue budgets, intended for projects in 2016/17, which were unspent and carried forward to 2017/18. After allowing for the budgeted transfers to reserves and other transfers to earmarked reserves, the outturn surplus has reduced the in-year deficit on the General Fund to £0.389m as shown below.

	£000	
<b>Outturn variance reported</b>	<b>(776)</b>	
Budgeted transfer to General Fund Balance	177	177
Budgets brought forward from 2015/16 (including repairs and renewals)	390	
Budgets carried forward to 2017/18	(88)	
Overspend of MRP against budget	97	
Other adjustments	(189)	(189)
<b>Surplus on General Fund (after transfers to earmarked reserves)</b>	<b>(389)</b>	<b>(389)</b>

The General Fund shows a net surplus of £0.389m on expenditure and income transactions in the year. The Comprehensive Income and Expenditure Statement shows a surplus for the year of £19.287m, comprising a surplus on the provision of services of £8.244m and a surplus of £11.043m on the revaluation of non-current and financial assets and on the actuarial value of pension assets and liabilities.

The Comprehensive Income and Expenditure Statement takes a wider view of financial performance than that shown in the General Fund and shows the true accounting position for the year. The surplus for the year represents the total amount by which the Council's overall net worth has increased over the year as shown in the Balance Sheet.

In addition to the net General Fund surplus of £0.389m 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 £2.908m is a charge for the use of assets that reflects the notional consumption of assets during the year and losses of £1.764m have been debited on the revaluation of assets.
- ii) **A charge for revenue expenditure funded from capital under statute (REFCUS).** A charge of £0.787m is made for expenditure which under proper accounting practice meets the definition of revenue expenditure, but which under statute can be funded from capital resources. It mainly relates to grants made for a capital purpose, such as grants for disabled facilities.
- iii) **A credit for capital grants and contributions.** Capital grants and contributions of £4.589m have been credited in accordance with proper accounting practice. However these grants are used to fund the Council's capital programme and do not fall into the General Fund.
- iv) **A credit for pensions** of £0.739m representing the difference between the accounting cost of pensions (as estimated by the Pension Fund actuary in accordance with IAS19) and the actual employer contributions paid to the West Sussex Pension Fund. Further details of the movement in the pension fund liability are shown in note 30.
- v) **A gain on the disposal of assets** of £1.359m. 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 2016/17 the amount set aside was £0.837m. This is a charge to the General Fund which is not shown in the Comprehensive Income and Expenditure Statement.

While the Comprehensive Income and Expenditure Statement shows the true accounting position for the year, it is the General Fund position which is the more important for residents of the district. Certain items that are charged under accounting rules, such as depreciation, impairment, capital grants and actuarially assessed pension charges, are eliminated from the General Fund, leaving the net costs, which after crediting revenue income and grants are those to be met by the Council Tax payers.

The table below summarises these accounting adjustments:-

	<b>£000</b>
<b>Surplus on General Fund</b>	<b>(389)</b>
(Income)/expenditure direct from earmarked reserves	969
Transfers (to)/from earmarked reserves	(3,241)
<b>Accounting adjustments</b>	
Charge for depreciation	2,908
Revaluation of non-current assets	(1,764)
Revenue expenditure charged to capital	787
Capital grant income	(4,589)
IAS19 pension costs	739
Gain/loss on disposal of assets	(1,359)
Minimum Revenue Provision	(837)
Share of in year surplus on the Collection Fund	(622)
Other technical adjustments	<u>(846)</u>
<b>Surplus on provision of services per CIES</b>	<b><u>(8,244)</u></b>

## 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 the original capital plan of £24.9m in 2016/17, the Council's capital spending for the year was £9.3m across a range of over 60 capital schemes including £1.5m on a commercial property investment.

A £7m loan to Saxon Weald housing organisation for the redevelopment of Winterton Court in Horsham which was based on the affordable housing content of the scheme was no longer required following changes to the scheme for which planning permission was again refused.

A total of £8.6m has been re-profiled into 2017/18 and later years including a further £1.7m of the initial £5m commercial property investment fund and £1m for vehicle replacement fleet which was put on hold in 2016/17 pending a decision on alternate weekly collection for which fewer vehicles would be needed. £1m of the Broadbridge Heath leisure centre budget has also been re-profiled following a lengthy tender exercise for a building contractor and also protracted discussions with the housing developer over the land for the MUGA's (Multi-Use Games Areas) as well as access arrangements.

£0.8m of the Hop Oast redevelopment budget will also be re-profiled reflecting the extent of work still to do after the new building is completed in June 2017, including completion and snags retention, demolition of the old building, decanting from one building to the other, essential equipment in the new building and making good any temporary working arrangements that were in place during the construction period.

The capital expenditure in the year was financed by £2.095m usable capital receipts, £2.905m Government grants and other contributions, and £0.77m revenue reserves leaving £3.574m unfinanced.

## FINANCIAL POSITION AT 31 MARCH 2017

The net worth of the District Council is shown in the Balance Sheet. It has increased by £19.3m from 31 March 2016. This is as a result of an increase in the Council's unusable reserves of £15.323m, which includes accounting adjustments related to non-current assets and pensions of £14.701m and a £0.622m improvement from the Council's share of the Collection Fund surplus which was previously a deficit.

Property, Plant and Equipment value has increased by £10.5m to £92.4m. Investment Property value has risen by £2.6m to £35.5m.

The net pension liability of £1.875m from 31 March 2016 has improved by £3.920m to a net pension surplus of £2.045m at 31 March 2017, reflecting some changes in the financial assumptions 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 2013 and revised employer contribution rates have been agreed for the three years from 1 April 2014, which in 2016/17 was a contribution of 20.5%. The Council relies on and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation. Full details of the movement in the liability are shown in note 30.

The level of usable Reserves increased by just under £4m to £30.557m during 2016/17; the main increase of £2.615m was in relation to the receipt of New Homes Bonus. The Council's level of General Reserves held at 31 March 2017 stands at £20.0m. Given our intention to become financially independent in the medium term, our reserves will enable us to invest in transformation. A policy is also being developed for the New Homes Bonus reserve to strengthen the Council's ability to generate income from appropriate investments in order to receive income to support future service delivery and secure the delivery of infrastructure to serve the needs of the district's residents. Further details on reserves can be found in note 19.

The Council has a single £4m loan which is repayable over 10 years until March 2019 at an interest rate of 3.38%. No new long term borrowing was entered into in 2016/17.

## **FINANCIAL OUTLOOK INCLUDING STRATEGY AND RESOURCE ALLOCATION**

Despite ongoing financial pressures from the reduction in central government funding, the Council has managed to set a balanced budget and has done so again in the forthcoming year of 2017/18. It has done this in 2017/18 through internal efficiencies and income generation such as; increasing the charge for its green waste service, introducing rural car parking charges, and an inflationary increase in Council Tax.

Further ahead, the Medium Term Financial Strategy has been revisited and balanced budgets are forecast through to 2019/20. The Council has been working on ideas for several months to ensure that it can continue its business transformation journey to meet the demands and expectations of its customers in the face of financial and demographic pressures. The current transformation programme is called "Future Horsham" and will deliver a stronger organisation which will be more productive and better equipped to serve customers. It will also help to protect front-line services whilst ensuring that the Council has a strong and responsive support services.

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

Whilst there will be a cost in implementing the transformation for which £0.5m each year is envisaged, the transformation will help protect the level of general fund reserves and keep them above the £6m minimum level of general reserves that Members agreed upon in 2012. The Council will continue to review potential actions that it could take to help pay towards further transformation and / or income generating ideas to help work towards balancing the forecast £1.6m deficit in 2020/21.

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

The Council's cash flow remains healthy. At the current year-end, the Council has £4.2m of cash and cash equivalents. The size of the deficit in 2020/21 is exceeded by the level of general reserves. The value of investments including cash and cash equivalents ended the year at £50.0m and generated an overall investment yield of 1.2% which was an improvement on the 0.77% achieved in 2015/16.

Over the last two years, the Council has made some significant decisions which will affect the future use of the Council's resources and will impact on the financial position of its Balance Sheet. The following significant capital expenditure has either been completed in 2016/17 or planned to complete over the next twelve months:

- Broadbridge Heath Leisure Centre: In November 2015, the Council agreed a £12.3m capital budget for the redevelopment of this site, with the aim of opening the new facility in spring 2018. Construction work is planned to start in summer 2017.
- Hop Oast (Horsham) depot redevelopment: The depots in Horsham and Storrington were at the end of their physical lives and the Council took the decision to invest £4.55m in consolidating the two sites into one up to date facility at Hop Oast to help address the needs of the increased household numbers and service demand. The new depot will open in June 2017.
- Temporary accommodation: The Council has spent £2.9m on the purchase of seventeen apartments in Horsham town used as affordable short stay temporary accommodation for homeless households. The decision supports the statutory duty the Council has to house the homeless and it reduces the need to place households in bed and breakfast. These apartments will open in June 2017.

- The vehicle replacement programme has a capital budget of £3m in 2017/18 which includes the replacement of the waste collection vehicles which were purchased in 2009 and 2010 and will reach the end of their useful life. Procurement of 19 rear loading waste vehicles is underway, with the vehicles due to arrive at Hop Oast depot in December 2017 prior to the roll out of alternate weekly collection in early February 2018.

## **RISKS AND OPPORTUNITIES**

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

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

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

## **FURTHER INFORMATION**

Interested members of the public have a statutory right to inspect the accounts from 12 June 2017 to 21 July 2017. The notice was placed on the HDC website, under the Finance and Performance Service - Statement of Accounts.

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

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

## Statement of Responsibility for the Financial Statements

### THE AUTHORITY'S RESPONSIBILITIES

The authority is required to:

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

### THE DIRECTOR OF CORPORATE RESOURCES RESPONSIBILITIES

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

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

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

The Director of Corporate Resources has also:

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

### CERTIFICATION OF THE ACCOUNTS

I hereby certify that the Statement of Accounts 2016/17 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 2017.

**Jane Eaton C.P.F.A.**  
**Director of Corporate Resources**  
25 July 2017

### APPROVAL OF THE ACCOUNTS

I hereby certify that the Statement of Accounts 2016/17 have been approved by the Council's Audit Committee under delegated powers at a meeting held on 25 July 2017.

**Councillor Stuart Ritchie**  
**Chairman of the Audit Committee**  
25 July 2017

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

### **Opinion on the Authority's financial statements**

We have audited the financial statements of Horsham District Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

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

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

### **Respective responsibilities of the Director of Corporate Resources and auditor**

As explained more fully in the Statement of the Director of Corporate Resources Responsibilities set out on page 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 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Horsham District Council as at 31 March 2017 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 2016/17.

### **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects

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

### **Authority's responsibilities**

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

### **Auditor's responsibilities**

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

### **Conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Horsham District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### **Certificate**

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

Paul King  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Southampton  
25 July 2017

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

## Movement in Reserves Statement

	General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Note
	£000	£000	£000	£000	£000	£000	
<b>Balance at 1 April 2015</b>	<b>(16,178)</b>	<b>0</b>	<b>(5,673)</b>	<b>(21,851)</b>	<b>(88,999)</b>	<b>(110,850)</b>	
Movement in reserves during 2015/16:							
(Surplus) or deficit on provision of services	2,969	0	0	2,969	0	2,969	7
Other Comprehensive Expenditure and Income	0	0		0	(19,017)	(19,017)	
<b>Total Comprehensive Expenditure and Income</b>	<b>2,969</b>	<b>0</b>	<b>0</b>	<b>2,969</b>	<b>(19,017)</b>	<b>(16,048)</b>	
Adjustments between accounting basis & funding basis under regulations (restated)	(4,124)	(5,755)	2,169	(7,710)	7,710	0	7,11
<b>Increase/Decrease (movement) in Year</b>	<b>(1,155)</b>	<b>(5,755)</b>	<b>2,169</b>	<b>(4,741)</b>	<b>(11,307)</b>	<b>(16,048)</b>	
<b>Balance at 31 March 2016 carried forward</b>	<b>(17,333)</b>	<b>(5,755)</b>	<b>(3,504)</b>	<b>(26,592)</b>	<b>(100,306)</b>	<b>(126,898)</b>	
Movement in reserves during 2016/17:							
(Surplus) or deficit on provision of services	(8,244)	0	0	(8,244)	0	(8,244)	7
Other Comprehensive Expenditure and Income	0	0	0	0	(11,044)	(11,044)	
<b>Total Comprehensive Expenditure and Income</b>	<b>(8,244)</b>	<b>0</b>	<b>0</b>	<b>(8,244)</b>	<b>(11,044)</b>	<b>(19,288)</b>	
Adjustments between accounting basis & funding basis under regulations	5,583	473	(1,777)	4,279	(4,279)	0	7,11
<b>Increase/Decrease (movement) in Year</b>	<b>(2,661)</b>	<b>473</b>	<b>(1,777)</b>	<b>(3,965)</b>	<b>(15,323)</b>	<b>(19,288)</b>	
<b>Balance at 31 March 2017 carried forward</b>	<b>(19,994)</b>	<b>(5,282)</b>	<b>(5,281)</b>	<b>(30,557)</b>	<b>(115,629)</b>	<b>(146,186)</b>	

The 2015/16 figures within these statements have been adjusted to reflect a change in the CIPFA presentational requirements

## Comprehensive Income and Expenditure Statement

Re-stated 2015/16			2016/17				
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Note
£000	£000	£000		£000	£000	£000	
2,304	(140)	2,164	Audit, Finance HR & Commissioning	2,278	(41)	2,237	
8,810	(3,602)	5,208	Community & Culture	5,303	(3,568)	1,735	
2,184	(20)	2,164	Corporate Management	1,309	(21)	1,288	
367	(4)	363	Customer Services	398	(4)	394	
3,096	(642)	2,454	Housing Services	1,840	(773)	1,067	
2,376	(69)	2,307	ICT	2,568	(179)	2,389	
1,689	(151)	1,538	Legal and Democratic Services & Elections	1,645	(192)	1,453	
1,960	(4,002)	(2,042)	Parking	1,985	(4,213)	(2,228)	
5,063	(2,837)	2,226	Planning & Economic Development	5,039	(2,920)	2,119	
1,947	(384)	1,563	Property & Facilities	2,199	(211)	1,988	
8,619	(4,005)	4,614	Refuse, Cleansing & Environmental Services	8,773	(4,042)	4,731	
33,932	(33,259)	673	Revenues & Benefits	33,262	(32,687)	575	
<b>72,347</b>	<b>(49,115)</b>	<b>23,232</b>	<b>Cost of Services</b>	<b>66,599</b>	<b>(48,851)</b>	<b>17,748</b>	7
		517	Other operating expenditure			1,359	8
		(2,204)	Financing and investment income and expenditure			(3,527)	9
		(18,576)	Taxation and non-specific grant income			(23,824)	10
		<b>2,969</b>	<b>(Surplus) or deficit on provision of services</b>			<b>(8,244)</b>	7
			<b>Items that will not be classified to the (Surplus) or deficit on the Provision of Services</b>				
		(5,772)	Surplus or deficit on revaluation of Property, Plant and Equipment assets			(6,349)	12
		(13,261)	Actuarial (gains)/losses on pensions assets/liabilities			(4,659)	30
		16	Surplus or deficit on revaluation of financial assets (Available for sale)			(35)	
		<b>(19,017)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(11,043)</b>	
		<b>(16,048)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(19,287)</b>	

## Balance Sheet

<u>31.03.2016</u>		<u>31.03.2017</u>	<u>Note</u>
£000	<b>NON-CURRENT ASSETS</b>	£000	
	Property, Plant and Equipment		
77,882	- Other Land and Buildings	85,033	12
2,213	- Vehicles, Plant, Furniture & Equipment	1,531	12
1,767	- Assets under construction/Awaiting Development	5,796	12
709	Heritage Assets	531	
32,887	Investment Property	35,461	13
188	Intangible Assets	11	
0	Assets Held for Sale	484	
0	Pension Asset	2,045	30
32	Long-term Debtors	322	
4,000	Long-term Investments	15,806	14
<b>119,678</b>	<b>TOTAL LONG-TERM ASSETS</b>	<b>147,020</b>	
22,433	Short - term Investments	29,886	14
136	Inventories	90	
5,131	Short -term Debtors	5,907	16
5,309	Cash and Cash Equivalents	4,248	15
<b>33,009</b>	<b>CURRENT ASSETS</b>	<b>40,131</b>	
(11,033)	Short-term Creditors	(14,961)	17
<b>(11,033)</b>	<b>CURRENT LIABILITIES</b>	<b>(14,961)</b>	
(291)	Provisions	(381)	18
(2,063)	Provision for Business Rates Appeals	(2,128)	18
(4,000)	Long-term Borrowing	(4,000)	14
	Other Long-term Liabilities		
(1,875)	- Pension Liability	0	30
(4,399)	- S106 Contribution	(7,308)	18
(657)	- Rent Deposits and Other Balances	(627)	
(1,471)	Capital Grants & Receipts in Advance	(11,560)	18
<b>(14,756)</b>	<b>LONG-TERM LIABILITIES</b>	<b>(26,004)</b>	
<b>126,898</b>	<b>NET ASSETS</b>	<b>146,186</b>	
	Usable Reserves		
(17,333)	- Reserves	(19,994)	19
(5,755)	- Capital Receipts Reserve	(5,282)	19
(3,504)	- Capital Grants & Contributions Unapplied	(5,281)	19
	Unusable Reserves		
(23,553)	- Revaluation Reserve	(29,298)	20
1,875	- Pensions Reserve	(2,045)	20,30
(78,838)	- Capital Adjustment Account	(83,857)	20
(68)	Financial Instrument Available for Sale Reserve	(104)	
(74)	-Financial Instrument Adjustment Account	(50)	
199	-Collection Fund Adjustment Account	(423)	
153	-Accumulating Absences Adjustment Account	148	
<b>(126,898)</b>	<b>TOTAL RESERVES</b>	<b>(146,186)</b>	

These financial statements replace the unaudited financial statements certified by the Director of Corporate Resources on 5 June 2017

Director of Corporate Resources

25 July 2017

## Cash Flow Statement

<u>2015/16</u>		<u>2016/17</u>	<u>Note</u>
<b>£000</b>		<b>£000</b>	
	<b><u>Operating activities</u></b>		
2,969	(Surplus) or deficit on provision of services	(8,244)	7
(4,159)	Adjust net surplus or deficit on the provision of services for non- cash movements	(770)	21
3,038	Adjust for items in the net deficit on the provision of services that are investing or financing activities	6,128	21
<b>1,848</b>	<b>Net cash flows from Operating activities</b>	<b>(2,886)</b>	
	<b><u>Investing activities</u></b>		
4,216	Purchase of property, plant and equipment, investment property and intangible assets	8,257	
103,750	Purchase of short-term and long-term investments	129,712	
231	Other payments for investing activities	148	
(6,383)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(50)	
(91,250)	Proceeds from short-term and long-term investments	(110,500)	
(3,768)	Other receipts from investing activities	(19,080)	
<b>6,796</b>	<b>Net cash flows from investing activities</b>	<b>8,487</b>	
	<b><u>Financing Activities</u></b>		
(3,119)	Other receipts from financing activities	(4,541)	
0	Other payments for financing activities	0	
<b>(3,119)</b>	<b>Net cash flows from financing activities</b>	<b>(4,541)</b>	
5,525	Net (increase) or decrease in cash and cash equivalents	1,060	
<b>10,834</b>	<b>Cash and cash equivalents at 1 April</b>	<b>5,309</b>	15
<b>5,309</b>	<b>Cash and cash equivalents at 31 March</b>	<b>4,249</b>	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 accrual basis in accordance with the Code. Any sums due to or payable by the Council at the end of each financial year that exceed £5,000 either individually, or as a class of expenditure are brought into account (irrespective of whether cash has been received or payment has been made). The exception to the £5,000 limit exists where the expenditure or part of it is to be recharged to a third party. Where a service is provided for a full year a full year's costs/income is reflected in the accounts. If any service is only provided for a proportion of the year a relevant proportion is included. If actual costs are not available accruals are made, in accordance with officer guidelines, on a best estimate basis.

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

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

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

#### CASH AND CASH EQUIVALENTS

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

#### EXCEPTIONAL ITEMS

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

#### PRIOR PERIOD ADJUSTMENTS

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

Changes in accounting policies are only made where required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. When a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

#### **CHARGES TO REVENUE RELATED TO NON-CURRENT ASSETS**

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

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

#### **MINIMUM REVENUE PROVISION**

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

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

#### **EMPLOYEE BENEFITS**

##### **Officers Emoluments and Senior Officer Remuneration**

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

There is also a requirement that local authorities include remuneration information of senior employees in the note accompanying their statement of accounts with previous year comparatives. This information can be found in note 26.

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

##### **Exit Packages and Termination Costs**

The Code requires disclosure of the details of exit packages agreed and the costs within bandings for the financial year with prior year comparatives. Information on termination costs together with prior year comparatives are provided in notes 25 and 26.

##### **Post- Employment Benefits - Pensions**

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

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

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

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

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

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

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

### **Discretionary Benefits**

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

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

### **EVENTS AFTER THE BALANCE SHEET DATE**

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

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

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

## FINANCIAL INSTRUMENTS

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

### Financial Liabilities

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

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

### Financial Assets

Financial assets are classified into two types:

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

#### Loans and receivables

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

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

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

#### Available-for-Sale Assets

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

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

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

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

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

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

Level 3 inputs – unobservable inputs for the asset.

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

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

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

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

### **GRANTS AND CONTRIBUTIONS**

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

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

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

### **COLLECTION FUND**

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

### **COUNCIL TAX INCOME**

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

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

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

## **NATIONAL NON-DOMESTIC RATES (NNDR)**

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

The Council is responsible for any refunds relating to backdated appeals although a significant element of refunds will relate to 2014/15 or prior years, but in accordance with CIPFA Guidance (LAAP Bulletin 96) such liabilities will only be formally recognised in the 2016/17 accounts.

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

## **HERITAGE ASSETS**

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

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

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

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

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

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

The Council does not recognise any intangible heritage assets.

## **INTANGIBLE ASSETS**

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

## **INVENTORIES & WORK IN PROGRESS**

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

## **INVESTMENT PROPERTY**

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

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

Investment properties are not depreciated but valued annually. When a value is changed any gain or loss is recognised in the Financing and Investment Income and Expenditure in the Comprehensive Income and

Expenditure Statement but is reversed out of the General Fund in the Movement in Reserves Statement as required by statutory regulation. Gains and losses on disposal are treated similarly.

## **JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS**

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

## **LEASES**

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

### **The Council as a Lessee**

#### Operating Leases

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

### **The Council as a Lessor**

#### Operating Leases

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

## **OVERHEADS AND SUPPORT SERVICES**

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

## **PROPERTY, PLANT AND EQUIPMENT**

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

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

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

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

In order to account properly for valuation changes the Revaluation Reserve was set up with a zero balance at 1 April 2007. Any revaluation upward results in a credit to the reserve. A downward revaluation can be set against the Revaluation Reserve if there is a balance referring to the devalued asset. As the reserve was set at zero many downwards revaluation of assets could appear as an impairment in the Comprehensive Income and

Expenditure Statement (CIES). Revaluation of property, plant and equipment is planned at five-yearly intervals, although material changes to asset valuations will be adjusted in the interim period, as an assessment is made at the end of each year for any indication that assets may be impaired in addition to cyclical revaluations. Any impairment would be written off against any revaluation gain for that asset in the Revaluation Reserve or otherwise recognised in the Comprehensive Income and Expenditure Statement.

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

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

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

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

## **DEPRECIATION**

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

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

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

## **PROVISIONS & RESERVES**

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

Provisions are charged to the appropriate service revenue account in the year that the a 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 2016/17 (the Code) requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted by the Code for the relevant financial year. For the 2016/17 Statement of Accounts there are a number of accounting changes that need to be reported. These relate to:

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

Additional disclosures required in the 2016/17 and 2017/18 financial statements in respect of accounting changes that are introduced in the 2017/18 Code are:

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

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

## 3 CRITICAL JUDGEMENTS AND ASSUMPTIONS

### Critical Judgements

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

- Future levels of local authority funding are uncertain, however based on its medium term planning using prudent assumptions on funding and based on announcements made by central government the Council judges that its assets will not be impaired as a result of a need to close facilities, reduce service provision or ongoing maintenance.
- The Council hold a significant portfolio of investment property and although general economic growth is still fragile the council judges that its portfolio in the context of the local economy is robust and healthy enough that its assets will not be impaired as a result of a decrease in economic activity.
- The Council judges that, on balance, the banking system will not be subject to major disruption to the extent that historic estimates of defaults are no longer tenable.
- The Council does not expect the introduction of the new tax gathering mechanisms for Council Tax and Business Rates to fundamentally alter the Council's financial stability. The risk within the rates retention scheme is assumed to be the safety net which has been set by the government at 7.5% of the council spending baseline which equates to £141k. IFRS 12 requires that the accounts disclose the judgements made to assess the type of Joint Arrangement to determine the Council's correct accounting treatment. The Council is currently contracted into a shared arrangement for its ICT and Revenues and Benefits functions, called CenSus Shared Services Partnership.

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

### **Assumptions**

The Statement of Accounts contains estimated figures that are based on assumption made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustments in the forthcoming financial year are as follows;

### **Pension Liability**

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

During 2016/17 the actuaries advised that the pension liability had been affected as follows:

<u>Change in assumptions year ended 31 March 2017</u>	<b>Horsham</b>		<b>CenSus</b>	
	Approximate % increase to Employer	Approximate monetary amount £000	Approximate % increase to Employer	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	9%	13,697	12%	939
1 year increase in member life expectancy	3% to 5%	4,603	3% to 5%	310
0.5% increase in Salary Increase Rate	1%	1,774	3%	215
0.5% increase in the Pension Increase Rate	8%	11,744	9%	705

### **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 £298k.

### **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 £29k.

### **Business Rates**

The Business Rates Retention Scheme became effective from 1 April 2013 and as a result local authorities are liable for any successful appeals against business rates by businesses in 2012/13 and earlier financial years in their proportional share. The Council has a total provision of £5.3m as an estimate of potential successful appeals up to 31 March 2017, the Council's proportion (40%) reflected in the Balance Sheet is £2.128m. This estimate is calculated using Valuation Office ratings list of appeals and an analysis of successful appeals to date.

### **Heritage Assets**

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

## **4 MATERIAL ITEMS OF INCOME AND EXPENSE**

Material items in terms of the 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 2015/16 or 2016/17 other than disclosed on the face of the Comprehensive Income and Expenditure Statement.

## 5 PRIOR PERIOD ADJUSTMENTS

The Council has made a prior period adjustment in preparing its 2016/17 Statement of Accounts. The 2015/16 Comprehensive Income and Expenditure Statement and Movement in Reserves Statement have been restated to reflect these changes in presentational requirements.

As a result of its Telling the Story review CIPFA changed the segmental reporting requirements for the Comprehensive Income and Expenditure Statement. Authorities have previously been required to present their Cost of Services using a standardised SERCOP classification. For 2016/17 the Cost of Services can be presented in a manner consistent with its management reporting Horsham District Council report to management on a service level.

In accordance with IAS1 Presentation of Financial Statements, the 2015/16 comparatives in the Comprehensive Income and Expenditure Statement have been restated to reflect the new reporting basis as summarised below.

As part of these presentational changes the income and expenditure for 2015/16 shown in the CIES have been restated with no net effect on the cost of services for the council.

SERCOP Classification	2015/16	HDC Classification	2015/16
	<u>Net Expenditure</u>		<u>Net Expenditure</u>
	£		
Central Services to the Public	920,490	Audit, Finance, HR & Commissioning	2,164,384
Cultural & Related Services	5,850,400	Community & Culture	5,208,402
Environmental & Regulatory Services	7,050,862	Corporate Management	2,163,918
Planning & Development Services	4,339,458	Customer Services	362,942
Housing Services	3,306,960	Housing Services	2,453,846
Highways & Roads	(1,452,482)	ICT	2,307,458
Social Services	172,113	Legal and Democratic Services & Elections	1,538,192
Corporate & Democratic Core	3,049,192	Parking	(2,041,727)
Non-Distributed Costs	(5,038)	Planning & Economic Development	2,225,072
Past Service Gains relating to Pensions	0	Property & Facilities	1,562,833
		Refuse, Cleansing & Environmental Services	4,613,621
		Revenues & Benefits	673,014
<b>Cost of Services</b>	<b><u>23,231,955</u></b>	<b>Cost of Services</b>	<b><u>23,231,955</u></b>

The income and expenditure for ICT would have been shown in the accounts as

Gross Expenditure	Gross Income	Net Expenditure
4,288	(1,981)	2,307

The council made an adjustment to reduce the gross expenditure by £1.912m and increase the gross income £1.912m, showing ICT in the Comprehensive Income and Expenditure statement as

Gross Expenditure	Gross Income	Net Expenditure
2,376	(69)	2,307

## 6 EVENTS AFTER THE BALANCE SHEET DATE

On 1 June 2017, staff from Census ICT were transferred under TUPE arrangements back to their originating Council. The Council's 2016/17 statement of accounts includes only the Horsham District Council proportion of the Census ICT pension liabilities and assets. The Council does not expect there to be a material impact from this post balance sheet event and therefore no adjustment has been made in the statement of accounts for this.

The Statement of Accounts were authorised for issue by the Director of Corporate Resources for Horsham District Council on 25 July 2017. 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 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## 7 EXPENDITURE AND FUNDING ANALYSIS

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

Net Expenditure Chargeable to the General Fund Balance	Restated	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund Balance	2016/17	Net Expenditure in the Comprehensive Income and Expenditure Statement
	2015/16				Adjustments between Funding and Accounting Basis	
	(Note 7a)				(Note 7a)	
1,924	240	2,164	Audit, Finance, HR & Commissioning	1,773	464	2,237
2,767	2,441	5,208	Community & Culture	2,750	(1,015)	1,735
1,347	817	2,164	Corporate Management	1,237	51	1,288
338	25	363	Customer Services	378	16	394
269	2,185	2,454	Housing Services	300	767	1,067
1,716	591	2,307	ICT	1,750	639	2,389
1,396	142	1,538	Legal and Democratic Services & Elections	1,450	3	1,453
(2,333)	291	(2,042)	Parking	(2,523)	295	(2,228)
1,958	268	2,226	Planning & Economic Development	1,850	269	2,119
(1,089)	2,652	1,563	Property & Facilities	(1,533)	3,521	1,988
3,534	1,080	4,614	Refuse, Cleansing & Environmental Services	3,607	1,124	4,731
493	180	673	Revenues & Benefits	426	149	575
<b>12,320</b>	<b>10,912</b>	<b>23,232</b>	<b>Net cost of services</b>	<b>11,465</b>	<b>6,283</b>	<b>17,748</b>
(13,475)	(6,788)	(20,263)	Other income and expenditure	(14,125)	(11,867)	(25,992)
<b>(1,155)</b>	<b>4,124</b>	<b>2,969</b>	<b>Surplus or deficit</b>	<b>(2,660)</b>	<b>(5,584)</b>	<b>(8,244)</b>
<b>(16,178)</b>			Opening General Fund Balance at 31 March 2017	<b>(17,333)</b>		
<b>(1,155)</b>			Less Deficit on General Fund in Year	<b>(2,660)</b>		
<b>(17,333)</b>			<b>Closing General Fund Balance</b>	<b>(19,993)</b>		

## 7a ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS

2016/17

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

2015/16

Adjustments from General fund to arrive at Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Interest	Other Differences	Total Adjustments
Audit, Finance, HR & Commissioning		40	168	32	240
Community & Culture	1,931	197		313	2,441
Corporate Management	710	97		10	817
Customer Services		25			25
Housing Services	2,041	46		98	2,185
ICT	658	(67)			591
Legal and Democratic Services & Elections		66		76	142
Parking	247	42		2	291
Planning & Economic Development	111	260		(103)	268
Property & Facilities	128	46		2,478	2,652
Refuse, Cleansing & Environmental Services	761	344		(25)	1,080
Revenues & Benefits		180		0	180
<b>Other income and expenditure from the Funding Analysis</b>	<b>(2,027)</b>	<b>450</b>		<b>(5,211)</b>	<b>(6,788)</b>
<b>Difference between General Fund (Surplus) or deficit and Comprehensive Income and Expenditure (surplus) or deficit on the provision of services</b>	<b>4,560</b>	<b>1,726</b>	<b>168</b>	<b>(2,330)</b>	<b>4,124</b>

## 7b SEGMENTAL INCOME

Income received on a segmental basis	2016/17	2015/16
	£000	£000
Audit, Finance, HR & Commissioning	(41)	(54)
Community & Culture	(3,173)	(3,234)
Corporate Management	(15)	(20)
Customer Services	(4)	(4)
Housing Services	(765)	(916)
ICT	(1,796)	(2,233)
Legal and Democratic Services & Elections	(192)	(151)
Parking	(4,212)	(4,001)
Planning & Economic Development	(2,765)	(2,667)
Property & Facilities	(3,216)	(2,786)
Refuse, Cleansing & Environmental Services	(4,074)	(3,785)
Revenues & Benefits	(1,324)	(1,405)
<b>Total income analysed on a segmental basis</b>	<b>(21,577)</b>	<b>(21,256)</b>

## 8 OTHER OPERATING EXPENDITURE

	2016/17	2015/16
	£000	£000
Parish council precepts	2,669	2,462
Parish grants	49	82
(Gains)/losses on the disposal of non-current assets	(1,359)	(2,027)
<b>Total</b>	<b>1,359</b>	<b>517</b>

## 9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2016/17	2015/16
	£000	£000
Interest payable and similar charges	135	135
Net interest cost on LGPS Pension	77	450
Interest receivable and similar income	(629)	(303)
Income and expenditure in relation to investment properties and changes in their fair value (as detailed in note 13)	(3,110)	(2,486)
<b>Total</b>	<b>(3,527)</b>	<b>(2,204)</b>

## 10 TAXATION AND GRANT INCOME

	2016/17	2015/16
	£000	£000
Benefits Grants	(31,090)	(31,613)
Other Government Grants	(160)	(395)
Other Grants	(499)	(492)
<b>Grants credited to Services</b>	<b>(31,749)</b>	<b>(32,500)</b>
Council Tax	(11,120)	(10,607)
Non Domestic Rates income & expenditure	(1,806)	(1,435)
Revenue Support Grant	(825)	(1,603)
Council Tax Freeze Grant	0	(85)
New Homes Bonus	(4,403)	(2,943)
Section 31 Grant – Business Rates Reliefs	(704)	(964)
Other Government Grants	(377)	(104)
Capital grants and contributions	(4,589)	(835)
<b>Credited to Taxation and Non Specific Grant Income</b>	<b>(23,824)</b>	<b>(18,576)</b>

## 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.

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation of non-current assets	(2,720)			2,720
Impairment on Property, Plant and Equipment	1,353			(1,353)
Other gains transferred from Revaluation Reserve	0			0
Movements in the market value of Investment Properties	412			(412)
Amortisation of intangible assets	(188)			188
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(261)			261
Revenue expenditure funded from capital under statute	(787)			787
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	837			(837)
Capital expenditure financed from revenue balances	864		(93)	(771)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	4,589		(4,589)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0		2,905	(2,905)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,621	(1,621)		0
Use of the Capital Receipts Reserve to finance new capital expenditure		2,094		(2,094)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals				
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(24)			24
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,239)			3,239
Employers pension contributions and direct payments to pensioners payable in the year	2,501			(2,501)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	622			(622)
<b>Adjustments primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4			(4)
<b>Total Adjustments</b>	<b>5,584</b>	<b>473</b>	<b>(1,777)</b>	<b>(4,280)</b>

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account: Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation of non-current assets	(2,673)			2,673
Impairment on Property, Plant and Equipment	(715)			715
Other gains transferred from Revaluation Reserve	0			0
Movements in the market value of Investment Properties	203			(203)
Amortisation of intangible assets	(192)			192
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(6,094)			6,094
Revenue expenditure funded from capital under statute	(3,210)			3,210
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	787			(787)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	835		(835)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0		3,004	(3,004)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	8,121	(8,121)		0
Use of the Capital Receipts Reserve to finance new capital expenditure		2,366		(2,366)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals				
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(24)			24
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(4,075)			4,075
Employers pension contributions and direct payments to pensioners payable in the year	2,350			(2,350)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	588			(588)
<b>Adjustments primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(25)			25
<b>Total Adjustments</b>	<b>(4,124)</b>	<b>(5,755)</b>	<b>2,169</b>	<b>7,710</b>

## 12 PROPERTY, PLANT & EQUIPMENT

	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant & Equipment
Cost or Valuation	£000	£000	£000	£000
<b>Movements in 2016/17</b>				
<b>At 1 April 2016</b>	78,616	7,602	1,767	87,985
Additions	1,412	899	4,370	6,681
Reclassifications	(787)		(325)	(1,112)
Revaluation increase/(decreases) recognised in the Revaluation Reserve	6,349			6,349
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	1,353			1,353
De-recognition – disposal	(18)	(36)		(54)
Other movements in cost or valuation	(1,488)	0	(16)	(1,504)
<b>At 31 March 2017</b>	85,437	8,465	5,796	99,698
<b>Accumulated Depreciation and Impairment</b>				
<b>At 1 April 2016</b>	(734)	(5,389)	0	(6,123)
Depreciation charge	(1,174)	(1,545)		(2,719)
Written out to the Revaluation Reserve	854			854
Written out to the Surplus/Deficit on the Provision of Services	634			634
Other movements	16			16
<b>At 31 March 2017</b>	(404)	(6,934)	0	(7,338)
<b>Net Book Value</b>				
<b>At 31 March 2017</b>	<b>85,033</b>	<b>1,531</b>	<b>5,796</b>	<b>92,360</b>
<b>At 31 March 2016</b>	<b>77,882</b>	<b>2,213</b>	<b>1,767</b>	<b>81,862</b>
	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant & Equipment
Cost or Valuation	£000	£000	£000	£000
<b>Movements in 2015/16</b>				
<b>At 1 April 2015</b>	80,331	8,937	801	90,069
Additions	1,137	218	1,086	2,441
Reclassifications	(709)		(120)	(829)
Revaluation increase/(decreases) recognised in the Revaluation Reserve	5,772			5,772
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(713)	(2)		(715)
De-recognition – disposal	(6,200)	(1,551)		(7,751)
Other movements in cost or valuation	(1,002)			(1,002)
<b>At 31 March 2016</b>	78,616	7,602	1,767	87,985
<b>Accumulated Depreciation and Impairment</b>				
<b>At 1 April 2015</b>	(590)	(5,518)	0	(6,108)
Depreciation charge	(1,251)	(1,422)		(2,673)
Depreciation written out to the Revaluation Reserve	215			215
Depreciation written out to the Surplus/Deficit on the Provision of Services	786			786
De-recognition	106	1,551		1,657
<b>At 31 March 2016</b>	(734)	(5,389)	0	(6,123)
<b>Net Book Value</b>				
<b>At 31 March 2016</b>	<b>77,882</b>	<b>2,213</b>	<b>1,767</b>	<b>81,862</b>
<b>At 31 March 2015</b>	<b>79,741</b>	<b>3,419</b>	<b>801</b>	<b>83,961</b>

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

### Capital Commitments

At 31 March 2017, the Council was committed to the following significant capital works contracts (£3.457m in 2016):

Capital scheme	<b>£000</b>
Forum and Piries Place car park lift replacement	365
Temporary accommodation apartments at Bishopric	384
Hop Oast redevelopment	<u>2,285</u>
<b>Total</b>	<b><u>3,034</u></b>

### 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.

	<b>Other Land &amp; Buildings £000</b>	<b>Vehicles, Plant, Furniture &amp; Equipment £000</b>	<b>Total £000</b>
Carried at historical cost		1,531	1,531
Valued at fair value as at			
31 March 2017	52,572		52,572
31 March 2016	5,793		5,793
31 March 2015	19,201		19,201
31 March 2014	6,371		6,371
31 March 2013	<u>1,096</u>		<u>1,096</u>
	<b><u>85,033</u></b>	<b><u>1,531</u></b>	<b><u>86,564</u></b>

## 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:

	<b>2016/17 £000</b>	<b>2015/16 £000</b>
Income from investment property	(3,011)	(2,439)
Direct operating expenses arising from investment property	313	156
Net (gains)/losses from fair value adjustments	<u>(412)</u>	<u>(203)</u>
<b>Net (gain)/loss</b>	<b><u>(3,110)</u></b>	<b><u>(2,486)</u></b>

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:

	<b>2016/17 £000</b>	<b>2015/16 £000</b>
<b>Balance at start of year</b>	32,887	30,085
Additions	1,565	1,770
Subsequent expenditure	0	0
Disposals	(29)	0
Net gains/(losses) from fair value adjustments	411	203
Transfers	<u>627</u>	<u>829</u>
<b>Balance at end of the year</b>	<b><u>35,461</u></b>	<b><u>32,887</u></b>

## 14 FINANCIAL INSTRUMENTS

### Financial Instruments - Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31 March 2017, using market interest rates for instruments of similar credit quality and remaining term to maturity.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following methods and assumptions:

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

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

	31.03.2017		31.03.2016	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Financial liabilities	(4,000)	(4,211)	(4,000)	(4,258)
Loans and receivables	5,877	6,057	4,000	4,126

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

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

Category	Fair	31.03.2017	31.03.2016
	value	£m	£m
	level		
Pooled funds	1	10	0
Money market funds	1	17.4	13.5
Corporate/Gov bonds and CDs	2	0	2

### Categories of Financial Instruments

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

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

	Long Term		Short term	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
	£000	£000	£000	£000
<b>Financial Assets:</b>				
<b>Investments and Available-for-sale</b>				
Loans and receivables	4,000	4,000	16,721	14,283
Available -for-sale financial assets	11,806	0	17,413	13,459
<b>Total</b>	<b>15,806</b>	<b>4,000</b>	<b>34,134</b>	<b>27,742</b>
<b>Debtors</b>				
Loans and receivables	322	32	0	0
Financial assets carried at contract amounts	0	0	3,418	1,306

<b>Total</b>	<b>322</b>	<b>32</b>	<b>3,418</b>	<b>1,306</b>
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**Financial Liabilities:**

**Borrowings**

Financial liabilities at amortised cost	(4,000)	(4,000)	0	0
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<b>Total</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>0</b>	<b>0</b>
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**Creditors**

Financial liabilities carried at contract amounts	0	0	(11,577)	(8,499)
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<b>Total</b>	<b>0</b>	<b>0</b>	<b>(11,577)</b>	<b>(8,499)</b>
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**Income, Expense, Gains and Losses**

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

	2016/17				2015/16			
	Financial Liabilities measured at amortised cost	Financial Assets: Loans & receivables	Financial Assets: AFS	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans & receivables	Financial Assets: AFS	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense	135	0	0	135	135	0	0	135
<b>Total expenses</b>	<b>135</b>	<b>0</b>	<b>0</b>	<b>135</b>	<b>135</b>	<b>0</b>	<b>0</b>	<b>135</b>
Interest income	0	(216)	(123)	(339)	0	(172)	(147)	(319)
Dividend income	0	0	(290)	(290)				
<b>Total income</b>	<b>0</b>	<b>(216)</b>	<b>(413)</b>	<b>(629)</b>	<b>0</b>	<b>(172)</b>	<b>(147)</b>	<b>(319)</b>
Gains/Loss on revaluation	0	0	(36)	(36)	0	0	16	16
<b>Other Comprehensive Income</b>	<b>0</b>	<b>0</b>	<b>(36)</b>	<b>(36)</b>	<b>0</b>	<b>0</b>	<b>16</b>	<b>16</b>
<b>Net gain/(loss) for the year</b>	<b>135</b>	<b>(216)</b>	<b>(449)</b>	<b>(530)</b>	<b>135</b>	<b>(172)</b>	<b>(131)</b>	<b>(168)</b>

**15 CASH AND CASH EQUIVALENTS**

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

	31.03.2017	31.03.2016
	£000	£000
Cash held by Council	2	2
Bank current accounts	(221)	(158)
Money market Funds	3,000	4,000
Short-term deposits	1,467	1,465
<b>Total Cash and Cash Equivalents</b>	<b>4,248</b>	<b>5,309</b>

**16 SHORT-TERM DEBTORS**

	31.03.2017	31.03.2016
	£000	£000
Sundry Debtors	3,493	1,254
Central government bodies	211	1,357
Payments in advance	398	538
Council Tax debtors	431	432
NNDR Debtors	1,136	1,195
Housing benefit overpayments	2,891	2,818
Moat Management service charge	249	311
Other local authorities	110	107
	8,919	8,012
Allowance for doubtful debts	(3,012)	(2,881)

<u>5,907</u>	<u>5,131</u>
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## 17 SHORT-TERM CREDITORS

	31.03.2017 £000	31.03.2016 £000
Sundry Creditors	(5,505)	(5,135)
Housing Benefit Subsidy	(193)	0
Prepayment of NNDR	(823)	(515)
Prepayment of Council Tax	(292)	(228)
WSCC Council Tax creditors	(3,398)	(2,631)
SPA Council Tax creditors	(419)	(326)
Central Government – Grants, Reliefs and Levy	(782)	(63)
Central Government - NNDR creditors	(2,927)	(1,779)
WSCC NNDR Creditors	(622)	(356)
<b>Total</b>	<b>(14,961)</b>	<b>(11,033)</b>

## 18 PROVISIONS AND OTHER LONG TERM LIABILITIES

	Provision for NNDR appeals	Provision for corporate restructure	Provision for Accumulated Absences	Total
	£000	£000	£000	£000
<b>Balance at 1 April 2015</b>	<b>(1,693)</b>	<b>(138)</b>	<b>(128)</b>	<b>(1,959)</b>
Additional provisions made in 2015/16	(709)	0	(25)	(734)
Amounts used in 2015/16	339	0	0	339
Unused amounts reversed in 2015/16	0	0	0	0
<b>Balance at 31 March 2016</b>	<b>(2,063)</b>	<b>(138)</b>	<b>(153)</b>	<b>(2,354)</b>
Additional provisions made in 2016/17	(673)	(233)	5	(901)
Amounts used in 2016/17	608	0	0	608
Unused amounts reversed in 2016/17	0	138	0	138
<b>Balance at 31 March 2017</b>	<b>(2,128)</b>	<b>(233)</b>	<b>(148)</b>	<b>(2,509)</b>

### Provision for NNDR Appeals

Estimate of rates potentially overcharged to businesses repayable on appeal.

### Provision for Accumulated Absences

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

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

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

The movements in both are show below

	S106 Contributions		Capital Grants Rec'd in Advance	
	31.03.2017 £000	31.03.2016 £000	31.03.2017 £000	31.03.2016 £000
<b>Opening balance</b>	<b>(4,399)</b>	<b>(3,171)</b>	<b>(1,471)</b>	<b>(1,220)</b>
Grants/Contributions in	(2,946)	(1,369)	(12,139)	(558)
Grants/Contributions out	37	141	2,050	307
<b>Closing balance</b>	<b>(7,308)</b>	<b>(4,399)</b>	<b>(11,560)</b>	<b>(1,471)</b>

## 19 USABLE RESERVES

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17.

Useable Revenue Reserves	Balance at 31.03.15 £000	Income / Expenditure 2015/16 £000	Transfer to / from other reserves 2015/16 £000	Balance at 31.03.16 £000	Income / Expenditure 2016/17 £000	Transfer to / from other reserves 2016/17 £000	Balance at 31.03.17 £000
<b>General Fund Balance</b>	<b>(9,311)</b>	(1,271)	1,491	<b>(9,091)</b>	(3,630)	3,241	<b>(9,480)</b>
New Homes Reserve	(1,924)	0	(1,777)	(3,701)	0	(1,232)	(4,933)
NHB - BBH Leisure Centre	0	0	0	0	617	(2,000)	(1,383)
Health and Wellbeing	(256)	0	58	(198)	0	21	(177)
Council tax localism	(259)	0	(19)	(278)	0	(15)	(293)
Neighbourhood Planning Grant	(318)	0	0	(318)	0	40	(278)
s106 Reserves	(1,502)	109	0	(1,393)	209	0	(1,184)
NNDR Provision	(1,435)	0	0	(1,435)	0	0	(1,435)
Transformation fund	0	0	0	0	0	(113)	(113)
Other	(1,173)	7	247	(919)	143	58	(718)
<b>Other Earmarked Reserves</b>	<b>(6,867)</b>	116	(1,491)	<b>(8,242)</b>	969	(3,241)	<b>(10,514)</b>
<b>Useable Capital Reserves</b>							
<b>Capital Receipts Reserve</b>	<b>0</b>	(5,755)		<b>(5,755)</b>	473		<b>(5,282)</b>
<b>Capital Grants unapplied</b>	<b>(5,673)</b>	2169		<b>(3,504)</b>	(1,777)		<b>(5,281)</b>
<b>Total Useable Revenue Reserves</b>	<b>(21,851)</b>			<b>(26,592)</b>			<b>(30,557)</b>

## 20 UNUSABLE RESERVES

	31.03.2017 £000	31.03.2016 £000
Revaluation Reserve	(29,298)	(23,553)
Capital Adjustment Account	(83,857)	(78,838)
Financial Instruments Adjustment Account	(50)	(74)
Financial Instruments Available for Sale Reserve	(104)	(68)
Pensions Reserve	(2,045)	1,875
Collection Fund Adjustment Account	(423)	199
Accumulated Absences Account	148	153
<b>Total Unusable Reserves</b>	<b>(115,629)</b>	<b>(100,306)</b>

### Revaluation Reserve

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

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

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

	<b>31.03.2017</b>	<b>31.03.2016</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	(23,553)	(19,013)
(Upward)/downward revaluation of assets	(7,579)	(6,186)
Downward revaluation of assets and impairment losses not charged to the Surplus/deficit on the Provision of Services	1,229	416
Difference between fair value depreciation and historical cost depreciation	423	334
Amount written off to the Capital Adjustment Account	182	896
Balance at 31 March	<u>(29,298)</u>	<u>(23,553)</u>

### Pension Reserve

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

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April</b>	1,875	13,412
Actuarial gains or losses on pensions assets and liabilities	(4,659)	(13,261)
Reversal of items relating to retirement benefits debited or credited to the surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	3,239	4,075
Employers pensions contributions and direct payments to pensioners payable in the year	<u>(2,500)</u>	<u>(2,351)</u>
<b>Balance at 31 March</b>	<b>(2,045)</b>	<b>1,875</b>

### 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.

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April</b>	<b>(78,838)</b>	<b>(84,131)</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non-current assets	2,720	2,672
- Revaluation losses on Property, Plant and Equipment	(1,353)	460
- Depreciation of intangible assets	188	192
- Revenue expenditure funded from capital under statute	787	3,210

Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	261	5,198
Movements in the market value of Investment Property	(411)	52
Adjusting amounts written out of the Revaluation Reserve	(605)	(334)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(2,094)	(2,366)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(2,726)	(652)
Application of grants to capital financing from the Capital Grants Unapplied Account	(180)	(2,352)
Statutory provision for the financing of capital investment charged against the General Fund	(837)	(787)
Use of general revenue reserves for the financing of capital investment	(770)	0
<b>Balance at 31 March</b>	<b>(83,858)</b>	<b>(78,838)</b>

#### Available for Sale Financial Instruments Reserve

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

The balance is reduced when investments with accumulated gains are

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

	31.03.2017	31.03.2016
	£000	£000
<b>Balance at 1 April</b>	<b>(68)</b>	<b>(84)</b>
Revaluation of investment not charged to the Surplus or Deficit on the Provision of Services	(36)	16
<b>Balance at 31 March</b>	<b>(104)</b>	<b>(68)</b>

#### Financial Instruments Adjustment Account

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

	2016/17	2015/16
	£000	£000
<b>Balance at 1 April</b>	<b>(74)</b>	<b>(98)</b>
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	24	24
<b>Balance at 31 March</b>	<b>(50)</b>	<b>(74)</b>
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	24	24

#### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2016/17	2015/16
	£000	£000
<b>Balance at 1 April - Council Tax</b>	<b>(343)</b>	<b>(341)</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(42)	(2)
<b>Balance at 31 March</b>	<b>(385)</b>	<b>(343)</b>

<b>Balance at 1 April – NNDR</b>	<b>542</b>	<b>1,128</b>
Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	(578)	(586)
<b>Balance at 31 March</b>	<b>(36)</b>	<b>542</b>
<b>Total</b>	<b>(421)</b>	<b>199</b>

#### Accumulated Absences Account

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

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April</b>	<b>153</b>	<b>128</b>
Settlement or cancellation of accrual made in the end of the preceding year	(153)	(128)
Amounts accrued at the end of the current year	148	153
<b>Balance at 31 March</b>	<b>148</b>	<b>153</b>
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(4)	25

## 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

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Depreciation and Impairments	(2,907)	(2,865)
Impairments	1,764	(512)
Pensions Liability	(739)	(1,725)
(Increase)/decrease in debtors	306	355
(Increase)/decrease in creditors	331	163
Movement in provisions	464	7
Movement in Reserves	93	0
(Increase)/decrease in inventories	(46)	402
Other non cash adjustments	(36)	16
<b>Total</b>	<b>(770)</b>	<b>(4,159)</b>

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

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Capital grants credited to the surplus or deficit on the provision of services	4,589	2,027
Proceeds from the sale of non-current assets	1,360	835
Council Tax and NDR adjustment	179	176
<b>Total</b>	<b>6,128</b>	<b>3,038</b>

### c) Interest received, interest paid and dividends received

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Interest received	(629)	(303)
Interest paid	135	135
<b>Total</b>	<b>(494)</b>	<b>(168)</b>

## 22 EXTERNAL AUDIT COSTS

	2016/17 £000	2015/16 £000
Fees payable with regard to external audit services carried out by the appointed auditors for the year	50	51
Fees payable for the certification of grant claims and returns for the year	13	12
Fees payable in respect of other services provided during the year	0	4
<b>Total</b>	<b>63</b>	<b>67</b>

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

## 23 MEMBERS ALLOWANCES

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

	2016/17 £000	2015/16 £000
Attendance Allowances	319	316
Expenses	21	27
<b>Total</b>	<b>340</b>	<b>343</b>

## 24 LEASES

### Operating Leases

#### Council as a Lessee

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

#### Council as Lessor

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

#### Future minimum lease payments

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

	Receivable as Lessor		Payable as Lessee	
	31/3/2017 £000	31/3/2016 £000	31/3/2017 £000	31/3/2016 £000
Not later than one year	2,121	1,900	230	230
Later than one year and not later than five years	5,257	5,035	920	920
Later than five years	7,112	7,505	728	958
	<b>14,490</b>	<b>14,440</b>	<b>1,878</b>	<b>2,108</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as rent reviews. The Council received contingent rent of £0.43m in 2016/17 (£0.15m in 2015/16).

#### Finance Leases

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

## 25 SENIOR OFFICER'S REMUNERATION

<b>Corporate Post Holder Title</b>	<b>Total Remuneration excluding pension contributions</b>	<b>Employer Pension Contributions</b>	<b>Total Remuneration including pension contributions</b>	<b>Note</b>
<b>2016/17</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>a</b>
Chief Executive	120,899	22,987	143,886	
Director of Community Services	94,363	18,944	113,307	
Director of Corporate Resources (Section 151 Officer)	89,149	18,089	107,238	
Director of Planning, Economic Development and Property	91,792	18,944	110,736	
Head of Legal and Democratic Services (Monitoring Officer)	73,756	14,956	88,712	
<b>2015/16</b>	<b>£</b>	<b>£</b>	<b>£</b>	
Chief Executive	123,781	21,649	145,430	
Director of Community Services	97,446	17,841	115,287	
Director of Corporate Resources (Section 151 Officer)	79,096	14,868	93,964	b
Director of Planning, Economic Development and Property	87,597	17,205	104,802	
Head of Legal and Democratic Services (Monitoring Officer)	74,586	14,129	88,715	

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

Note:

a. Senior officers are remunerated for returning officer duties during elections. The amount of remuneration varies according to the type and number of elections. In 2015/16 the amount payable for returning officer duties was greater than the 2016/17 amount paid. There was also an increase in the rate of employer pension contributions.

b. In 2015/16, the Director of Corporate Resources left post on 29 February 2016 so 2015/16 does not include a full year of costs. The new Director started at the end of March 2016.

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

<b>Remuneration Band</b>	<b>Number of Employees 2016/17</b>	<b>Number of Employees 2015/16</b>
£50,000 - £54,999	6	10
£55,000 - £59,999	6	6
£60,000 - £64,999	2	1
£65,000 - £69,999	2	1
£70,000 - £74,999	2	2
£75,000 - £79,999	1	2
£80,000 - £84,999	0	1
£85,000 - £89,999	1	1
£90,000 - £94,999	2	0
£95,000 - £99,999	0	1
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000 - £114,999	0	0
£115,000 - £119,999	0	0
£120,000 - £124,999	<u>1</u>	<u>1</u>
<b>Total number</b>	<b>23</b>	<b>26</b>

## 26 EXIT PACKAGES

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

Exit package cost band	Number of Compulsory redundancies		Number of other agreed departures		Number of exit packages by exit band		Total cost of exit packages in each band	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17 £000	2015/16 £000
£0 - £20,000	3	4	6	2	9	6	61	57
£20,001 - £40,000	3	5	0	0	3	5	96	134
£40,001 - £60,000	1	0	0	0	1	0	58	0
£60,001 - £80,000	0	1	0	0	0	1	0	72
<b>Total</b>	<b>7</b>	<b>10</b>	<b>6</b>	<b>2</b>	<b>13</b>	<b>12</b>	<b>215</b>	<b>263</b>
Provision	3	0	1	0	4	0	233	0
<b>Total</b>	<b>10</b>	<b>10</b>	<b>7</b>	<b>2</b>	<b>17</b>	<b>12</b>	<b>448</b>	<b>263</b>

## 27 TERMINATION BENEFITS

During 2016/17 the Council terminated 13 posts at a total cost of £215k which was made up of redundancy payments of £158k and other termination costs of £57k. Termination costs in 2015/16 were £263k.

In addition, in 2016/17, the Statement includes a provision of £233k which was agreed for 4 officers (£0 in 2015/16); these costs are not included in the bands and therefore an additional line has been added to reconcile the total cost of termination benefits reported in the Comprehensive Income and Expenditure Statement.

## 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 2017 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 2016/17 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 2016/17.

### Partnerships and shared arrangements

#### Census

As part of the CenSus partnership between Horsham, Mid Sussex and Adur District Council there is an agreement to share certain costs. The following costs were paid in respect of the 2016/17 financial year:

<u>ICT – Hosted by Horsham Council District Council</u>		Outstanding at 31.03.2017 (due to) / from HDC
	£000	£000
Mid Sussex	880	(67)
Horsham	772	0
Adur & Worthing	1,129	11

<u>Revenues and Benefits – hosted by Mid Sussex District Council</u>		Outstanding at 31.03.2017 (payable to MSDC)
	£000	£000
Mid Sussex	1,049	0
Horsham	1,004	(74)
Adur	817	0

#### Building Control

Horsham District Council provides the Building Control service for Crawley Borough Council. Crawley discharged this function under an agreement pursuant to sections 101 and 111 of the Local Government Act 1972, section 3 of the Local Government Act 1999 and the Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2000/2851. The total contribution paid by Crawley for 2016/17 amounted to £301k and £76k was outstanding as at 31 March 2017.

#### Procurement Service - shared resource

The procurement staff within Crawley and Horsham have been pooled and are treated as a shared resource between Crawley, Horsham and Mid Sussex. In 2016/17 the costs for each Council were:

	£000	Outstanding at 31.03.2017 (due to) / from HDC
	£000	£000
Crawley	59	13
Horsham	59	0
Mid Sussex	51	(9)

#### Access Officer - shared resource

The Access Officer role is a shared resource utilised by Horsham DC and Crawley BC. In 2016/17 the costs for each Council were:

	£000	Outstanding at 31.03.2017 (due to) from HDC
	£000	£000
Crawley	8	0
Horsham	33	0

## 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.

	2016/17 £000	2015/16 £000
<b>Opening Capital Financing Requirement</b>	<b>13,255</b>	<b>11,986</b>
<b>Capital Investment</b>		
Property, Plant & Equipment	6,681	2,441
Investment Properties	1,565	1,770
Intangible Assets	11	5
Revenue Expenditure Funded from Capital Under Statute	1,087	3,210

### Sources of finance

Capital receipts	(2,095)	(2,366)
Government grants and other contributions	(2,905)	(3,004)
Direct revenue contributions	(770)	0
Minimum Revenue Provision	(837)	(787)
Closing Capital Financing Requirement	<u>15,992</u>	<u>13,255</u>

### Explanation of movements in year

Increase in underlying need to borrowing	3,574	2,056
Minimum Revenue Provision	(837)	(787)
Increase/ (decrease) in Capital Financing Requirement	<u>2,737</u>	<u>1,269</u>

## 30 DEFINED BENEFIT PENSION SCHEMES

### Participation in Pension Schemes

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

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

In addition, the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases and early access pension costs. In 2016/17 these amounted to £101k (£110k in 2015/16) representing 1% of pensionable pay (1% in 2015/16).

### Change in accounting policy

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

### Transactions Relating to Post-employment Benefits

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

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

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

<u>Comprehensive Income and Expenditure Statement</u>	2016/17	2015/16
	£000	£000
<u>Cost of Services</u>		
- current service cost	(3,162)	(3,625)
- past service costs	(0)	(0)
<b>Total Service Cost</b>	<b>(3,162)</b>	<b>(3,625)</b>
<u>Financing and Investment Income and Expenditure</u>		
Interest income on planned assets	4,767	4,315
Interest cost on defined benefit obligation	(4,844)	(4,765)
<b>Total Net Interest</b>	<b>(77)</b>	<b>(450)</b>
<b>Total Post Employment Benefit Charged to the Surplus or deficit on the provision of services</b>	<b>(3,239)</b>	<b>(4,075)</b>

### Re-measurements of the Net Defined Liability

Actuarial gains arising from changes in demographic assumptions	4,132	0
Actuarial gains / (losses) arising from changes in financial assumptions	(25,030)	12,886
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	701	1,866
Return on assets excluding amounts included in net interest	24,856	(1,491)
<b>Total re-measurements recognised in other comprehensive income</b>	<b>4,659</b>	<b>13,261</b>
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>1,420</b>	<b>(9,186)</b>

### 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 with the Code	(739)	(1,725)
Employers contributions payable to scheme	(2,501)	(2,350)

### Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	2016/17 Census £000	2016/17 HDC £000	2015/16 Census £000	2015/16 HDC £000
Present value of liabilities - Funded	(7,747)	(153,443)	(6,056)	(131,041)
Present value of liabilities - Un funded	0	(1,756)	0	(1,609)
Fair value of plan assets	8,153	156,838	6,668	130,163
Net asset (liability) arising from defined benefit obligation	<b>406</b>	<b>1,639</b>	<b>612</b>	<b>(2,487)</b>

### Funded Liabilities - LGPS

	2016/17 Census £000	2016/17 HDC £000	2015/16 Census £000	2015/16 HDC £000
Reconciliation of present value of the scheme liabilities:				
Balance at 1 April	(6,056)	(132,650)	(6,558)	(142,394)
Current service cost	(200)	(2,963)	(241)	(3,384)
Interest cost	(221)	(4,623)	(216)	(4,549)
Contributions by scheme participants	(50)	(747)	(50)	(742)
Actuarial gains and losses	(1,309)	(18,888)	960	13,792
Benefits paid	89	4,672	49	4,627
Past service costs	0	0	0	0
Balance at 31 March	<b>(7,747)</b>	<b>(155,199)</b>	<b>(6,056)</b>	<b>(132,650)</b>
Reconciliation of fair value of the scheme assets:				
Balance at 1 April	6,668	130,163	6,394	129,146
Interest income on planned assets	242	4,525	210	4,106
Return on planned assets (excluding amounts in net interest)	1,132	23,724	(76)	(1,415)
Employer contributions	150	2,351	139	2,211
Contributions by scheme participants	50	747	50	742
Benefits paid	(89)	(4,672)	(49)	(4,627)
Balance at 31 March	<b>8,153</b>	<b>156,838</b>	<b>6,668</b>	<b>130,163</b>

**LGPS Assets comprised:**

Fair Value of scheme assets at 31 March

	2017			2016		
	Census	HDC	Total % of assets	Census	HDC	Total % of assets
	£000	£000		£000	£000	
<b>Equity Securities:</b>						
Consumer	1,159.9	22,312.2	14.2%	1,089.3	21,262.9	16.3%
Manufacturing	745.2	14,335.1	9.1%	227.9	4,449.0	3.4%
Energy & Utilities	393.7	7,574.3	4.8%	230.6	4,502.2	3.5%
Financial Institutions	1,328.0	25,545.2	16.3%	1,080.2	21,085.4	16.2%
Health & Care	564.9	10,867.0	6.9%	430.4	8,401.9	6.5%
Information Technology	1,114.2	21,432.3	13.7%	861.4	16,815.4	12.9%
Other	375.6	7,226.0	4.6%	583.6	11,393.4	8.8%
<b>Debt Securities:</b>						
UK Government	151.2	2,908.2	1.9%	116.1	2,266.2	1.7%
<b>Private Equity:</b>						
All	350.5	6,742.2	4.3%	320.5	6,255.9	4.8%
<b>Real Estate:</b>						
UK Property	642.9	12,368.4	7.9%	601.7	11,744.8	8.8%
Overseas Property	0.0	0.0	0%	0.7	14.2	0.1%
<b>Investment Funds &amp; Unit Trusts:</b>						
Bonds	1,021.6	19,652.3	12.5%	937.0	18,290.0	14.1%
Other	95.6	1,838.4	1.2%	51.1	998.2	0.8%
<b>Cash &amp; cash Equivalents: All</b>	<b>209.8</b>	<b>4,036.4</b>	<b>2.6%</b>	<b>137.5</b>	<b>2,683.5</b>	<b>2.1%</b>
	<b>8,153</b>	<b>156,838</b>	<b>100%</b>	<b>6,668</b>	<b>130,163</b>	<b>100%</b>

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

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The current position is a surplus of £2.045m which has an impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £146.186m.

Statutory arrangements for funding mean that the financial position remains healthy as contributions continue to be made over the working life of current employees. The total contributions expected by Hymans Robertson LLP the scheme's actuaries that are to be made to the Local Government Pension scheme by the council in the year to 31 March 2018 is £2.39m (this includes £152k estimated for the HDC share of Census).

**Basis for estimating assets and liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The pension scheme is assessed by Hymans Robertson for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

		<u>2016/17</u>	<u>2015/16</u>
Long term expected rate of return on assets in the scheme:			
Mortality assumptions:			
Longevity at 65 for current pensioners:	Men	23.6	24.4
	Women	25.0	25.8
Longevity at 65 for future pensioners:	Men	26.0	26.9
	Women	27.8	28.5
Rate of inflation / pension		2.4%	2.2%
Rate of increase in salaries		3.1%	3.7%
Rate of discounting scheme liabilities		2.6%	3.5%

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

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

### 31 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

### 32 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

#### **Credit Risk: Investments**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

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

The detailed Strategy is approved each year by the Council and incorporates indicators stipulated by the CIPFA codes on Treasury Management and CIPFA prudential code. The authorised limit for external borrowing in 2016/17 was £15m. The limit per institution, excluding UK Government or Local Authority, for unsecured investment was £2.5m. The limit for long term investment was £8m. The actual performance against Treasury Management Strategy is reviewed by the Audit Committee of the Council annually.

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

	<b>31.03.2017</b>	<b>31.03.2016</b>
	£000	£000
AAA rated counterparties	14,322	13,459
AA rated counterparties	6,908	13
A rated counterparties	6,415	8,912
BBB rated counterparties	4,453	4,440
Unrated Pooled funds	9,980	
Unrated Local Authorities	<u>8,000</u>	<u>5,000</u>
Total	<u><b>50,078</b></u>	<u><b>31,824</b></u>

#### **Credit Risk: Trade Receivables**

The Council raises charges for a wide range of services that meet the definition of a financial asset. The Council does not generally allow credit for its trade debtors, such that £0.495m of the £1.8m balance is past its due date for payment.

The past due amount can be analysed as follows:

Age	31.03.2017	31.03.2016
	£000s	£000s
Less than three months	288	218
Three to six months	115	46
Six months to one year	18	31
More than one year	75	96
Total	<u>496</u>	<u>391</u>

### Liquidity Risk

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

The Council's Treasury Management Strategy sets a benchmark of £3m being available within a three month period and can borrow from the money markets to cover any day to day cash flow need. The PWLB also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial liabilities is as follows:

	31.03.2017	31.03.2016
	£000s	£000s
Less than one year	11,577	8,499
Between one and two years	0	0
Between two and five years	4,000	4,000
More than five years	0	0
Total	<u>15,577</u>	<u>12,499</u>

### Market Risk: Interest rate risk

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

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

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

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

### Sensitivity to Interest Rate Changes

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

To give some guide to the magnitude of the possible effect if all other variables stayed the same and a rate change of 1% were to apply to the investments held at 31 March 2017 the financial effect would be:

	£000
Increase in income receivable	(309)
<b>Impact on surplus and deficit on provision of services</b>	<b>(309)</b>
Decrease in fair value of available for sale financial assets	152
<b>Impact on Comprehensive Income and Expenditure</b>	<b>(157)</b>
Decrease in fair value of loans and receivables*	104
Decrease in fair value of fixed rate borrowing*	(81)

\*No impact on Comprehensive Income and Expenditure.

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

#### **Market Risk: Price Risk**

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to all pooled funds of £10m. A 5% fall in commercial property prices would result in a £0.12m charge to Other Comprehensive Income & Expenditure – this would have no impact on the Surplus or Deficit on the Provision of Services until the investment was sold.

The Council's investment in a pooled equity funds is subject to the risk of falling share prices. This risk is limited by the Council's maximum exposure to all pooled funds of £10m. A 5% fall in share prices would result in a £0.17m charge to Other Comprehensive Income & Expenditure – this would have no impact on the Surplus or Deficit on the Provision of Services until the investments were sold.

## COLLECTION FUND

2015-16			2016-17		
Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000
			<b>INCOME</b>		
0	(86,404)	(86,404)	0	(91,940)	(91,940)
(41,039)	0	(41,039)	(42,229)	0	(42,229)
			<b>Transfers from General Fund</b>		
0	(3)	(3)	0	(2)	(2)
(340)	0	(340)	185	0	185
<u>(41,379)</u>	<u>(86,407)</u>	<u>(127,786)</u>	<u>(42,044)</u>	<u>(91,942)</u>	<u>(133,986)</u>
			<b>Total Income</b>		
			<b>EXPENDITURE</b>		
			<b>Apportionment of Previous Year Surplus / (Deficit)</b>		
(577)	184	(393)	(640)	160	(480)
(144)	1,173	1,029	(160)	1,014	854
0	143	143	0	126	126
(722)	0	(722)	(800)	0	(800)
<u>(1,443)</u>	<u>1,500</u>	<u>57</u>	<u>(1,600)</u>	<u>1,300</u>	<u>(300)</u>
			<b>Precepts, Demands and Shares</b>		
15,916	10,421	26,337	16,563	10,919	27,482
3,979	66,043	70,022	4,141	70,309	74,450
0	8,179	8,179	0	8,667	8,667
19,895	0	19,895	20,704	0	20,704
<u>39,790</u>	<u>84,643</u>	<u>124,433</u>	<u>41,408</u>	<u>89,895</u>	<u>131,303</u>
			<b>Charges to Collection Fund</b>		
153	74	227	309	277	586
311	179	490	139	89	228
926	0	926	163	0	163
177	0	177	179	0	179
<u>1,567</u>	<u>253</u>	<u>1,820</u>	<u>790</u>	<u>366</u>	<u>1,156</u>
<b>39,914</b>	<b>86,396</b>	<b>126,310</b>	<b>40,598</b>	<b>91,561</b>	<b>132,159</b>
(1,465)	(11)	(1,476)	(1,446)	(381)	(1,827)
<u>2,821</u>	<u>(2,774)</u>	<u>47</u>	<u>1,356</u>	<u>(2,785)</u>	<u>(1,429)</u>
<b><u>1,356</u></b>	<b><u>(2,785)</u></b>	<b><u>(1,429)</u></b>	<b><u>(90)</u></b>	<b><u>(3,166)</u></b>	<b><u>(3,256)</u></b>
			<b>(Surplus) / Deficit carried forward 31 March</b>		

## 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	917
B	40,001-52,000	7/9	2,853
C	52,001-68,000	8/9	8,901
D	68,001-88,000	1	11,408
E	88,001-120,000	11/9	11,837
F	120,001-160,000	13/9	10,663
G	160,001-320,000	15/9	11,597
H	over 320,000	2	1,438
<b>COUNCIL TAX BASE</b>			<b>59,615</b>

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

### 2 INCOME FROM BUSINESS RATES

Under the revised arrangements for uniform business rates, the Council collects Non-Domestic Rates for its area which are based on local rateable values multiplied by a uniform rate. The total Non-Domestic Rateable Value at 31 Mar 2017 was £104,021m and the National Non-Domestic Rate multiplier for the year was 0.497.

### 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 2017
	£000
Accumulated Surplus at 31.03.2017	3,256

Apportionment based on 2016/17 precepts and demands:

	<u>Business</u> <u>Rates</u> £000	<u>Council</u> <u>Tax</u> £000	Total £000
Horsham District Council	36	385	421
Sussex Police Authority	0	305	305
West Sussex County Council	9	2,476	2,485
Central Government	45	0	45
	90	3,166	3,256

## GLOSSARY

<b>BALANCES</b>	The amounts remaining at the year end on the various funds of the Council.
<b>CAPITAL EXPENDITURE</b>	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.
<b>CAPITAL RECEIPTS</b>	Receipts from the sale of property, plant and equipment e.g land, building etc.
<b>CENTRAL SUPPORT SERVICES</b>	The expenditure on the central administration of the Council, including the cost of accommodation.
<b>COLLECTION FUND</b>	A statutory fund maintained by a billing authority that is used to record local taxes and non-domestic rates collected by the Council, payments to precepting authorities, central government and its own general fund.
<b>COUNCIL TAX</b>	A locally determined charge based on property values and levied by a local authority to enable it to provide its services.
<b>CREDITORS</b>	Individuals and organisations to which the Council owes money.
<b>DEBTORS</b>	Individuals and organisations who owe money to the Council.
<b>DEPRECIATION</b>	A charge to a revenue account to reflect the reduction in the useful economic life of a fixed asset.
<b>EARMARKED RESERVES</b>	Amounts set aside for specific purposes falling outside the definition of provisions.
<b>FAIR VALUE</b>	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.
<b>FINANCIAL ASSET</b>	A contractual right to receive economic benefits such as cash or right to receive cash or right to favourably exchange a financial asset/liability.
<b>FINANCIAL INSTRUMENT</b>	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
<b>FINANCIAL LIABILITY</b>	A contractual obligation to transfer economic benefits such as an obligation to pay over cash or unfavourably exchange a financial asset/liability.
<b>FINANCIAL REPORTING STANDARDS</b>	Accounting practice recommended for adoption by the accountancy profession e.g. in relation to public reporting, accounting policies etc.
<b>NON-CURRENT ASSET</b>	A tangible asset that yields benefit to a council and the services it provides for a period of more than one year.
<b>GENERAL FUND</b>	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.
<b>IAS</b>	International Accounting Standard.
<b>MINIMUM REVENUE PROVISION (MRP)</b>	The minimum amount that must be charged to a council's revenue account to be set aside to pay back debt.
<b>NATIONAL NON-DOMESTIC RATES (NNDR)</b>	This is the charge payable on all business premises and is calculated by multiplying the rateable value of the property by a nationally set rate multiplier.
<b>PRECEPT</b>	An amount charged to the Collection Fund to finance services provided by another authority e.g. County and parish councils.
<b>PRECEPTING AUTHORITIES</b>	Those authorities which are able to raise a precept.
<b>PROVISION</b>	A fund to provide for liabilities or losses that are likely to be incurred but the dates and amounts are uncertain.
<b>PUBLIC WORKS LOAN BOARD (PWLB)</b>	A statutory body operating within Central Government responsible for lending money to local authorities and other bodies.
<b>SECTION 106 (S106)</b>	Contribution paid by developers to Local Planning Authorities in order to offset the costs of the external effects of development under section 106 of Town and Country Planning Act 1990.



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## Report to Audit Committee

25<sup>th</sup> July 2017

By the Director of Corporate Resources

### INFORMATION REPORT



**Horsham  
District  
Council**

Not Exempt

## Risk Management ~ Quarterly Report

### Executive Summary

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

### Recommendations

That the Committee is recommended to:

- i) Note the contents of this report.

### Reasons for Recommendations

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

### Background Papers

Covalent Performance Management System / Departmental Risk Registers

**Wards affected:** All

**Contact:** Julie McKenzie, Project Assurance Manager 01403-215306

## Background Information

### 1 Introduction and Background

- 1.1 The Audit Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers (see 3.1 and 3.2 below).

### 2 Relevant Council Policy

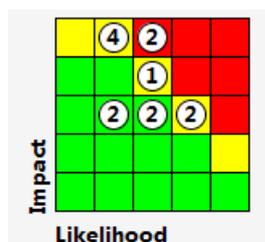
- 2.1 The Council's Risk Management Policy is detailed in the Council's Risk Management Toolkit. The Council's Risk Management Strategy is a component part of the Policy, and this document sets out to achieve the following objectives:
  - Fully integrate risk management into the culture of the Council and its strategic and service planning processes;
  - Ensure that the risk management framework is understood and that ownership and accountability for managing risks is clearly assigned;
  - Ensure the benefits of risk management are realised through maximising opportunities and minimising threats;
  - Ensure consistency throughout the Council in the management of risk.

### 3 Details

#### 3.1 Corporate Risk Register

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

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



There are two risks which are currently considered to be high, seven medium risks and four low risks. The high risk areas relate to the following:

CRR01a	Uncertainty about the Council's Financial position up to 2019/20.
CRR01b	Uncertainty about the Council's Financial position beyond 2020.

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

### 3.2 Departmental Risk Registers

All departmental risk registers have been reviewed and updated.

## 4 Outcome of Consultations

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

## 5 Other Courses of Action Considered but Rejected

5.1 Not applicable.

## 6 Financial Consequences

6.1 There are no financial consequences.

## 7 Legal Consequences

7.1 There are no legal consequences.

## 8 Staffing Consequences

8.1 There are no staffing consequences.

## 9 Risk Assessment

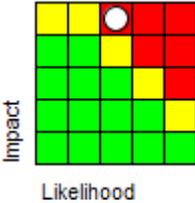
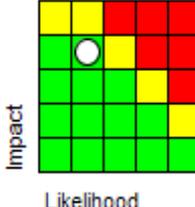
9.1 The report provides an update on the Council's corporate risks and how these are being managed by the Senior Leadership Team. See Appendix 1 for the latest version of the Council's Corporate Risk Register.

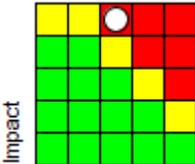
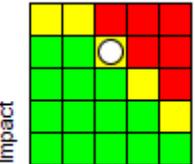
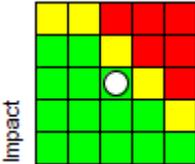
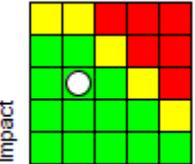
## 10 Other Considerations

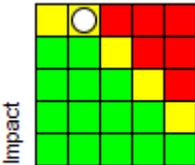
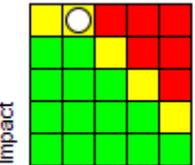
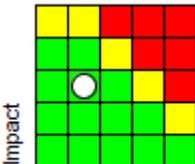
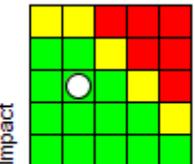
10.1 Risk management encompasses all risks within the organisation, including strategic, operational, and project/change risks. This includes consideration of Crime & Disorder; Human Rights; Equality & Diversity; and Sustainability as appropriate.

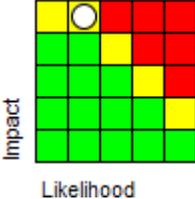
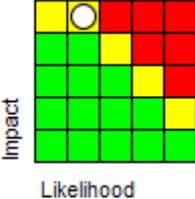
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# Appendix 1 Corporate Risk Report June 2017

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<b>CRR01a</b> Financial Cause: The Council is reliant on Central Controlled Government funding (e.g. Business Rates). Risk: (i) Failure to achieve the required level of savings and income in the MTFS to 2019/20	Reductions in funding	Jane Eaton		CRR.01.1 Review current budgets in preparation for the 2018/19 budget (October Annually)	Dominic Bradley			June 2017 Update:  A balanced budget for 2017/18 was approved at Cabinet on 26 January 2017 and Council on 15 February 2017. This incorporated many of the efficiency and additional income plans worked on during the year.  It also forecast balanced budgets through to 2019/20 on the expectation that central funding from the government's four year settlement is delivered and that the proposed plans to deliver further efficiencies and income are implemented. This has helped to provide a degree of certainty for the next three years, in as much as the Revenue Support Grant and the baseline Business Rates funding reduction from £2.2m in 2017/18 to £1.4m in 2019/20 should not get any worse during this period.  Business rates was retention taken out of the Queen's speech in June 2017, further information is awaited.  Increase in planning fees (20%) due to commence from July 2017. Guidance from Government is awaited.
	Adverse effect on morale			CRR.01.2 Develop options to deal with pressure for consideration by Members	Dominic Bradley			
	Financial			CRR.01.3 Implement the Medium Term Plan	Dominic Bradley			
	Failure to achieve agreed objectives			CRR.01.4 Ongoing monitoring under the Service Efficiency Board (Future Horsham)	Dominic Bradley			
				CRR.01.5 Productivity & commercialisation projects reviews being undertaken, each of which will provide recommendations (programme of reviews to be completed by 30/09/18)	Chris Lyons			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR01b Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (eg. Business Rates).</p> <p><u>Risk:</u> (ii) Funding from Government is less generous than assumed in the MTFs from 2020</p>	<p>Reductions in funding</p> <p>Adverse effect on morale</p> <p>Financial</p> <p>Failure to achieve agreed objectives</p>			CRR.01b.1 Continue to keep a watching brief	Dominic Bradley	▶		<p>June 2017 Update:</p> <p>Uncertainty beyond 2019/20, especially with regards to the 100 per cent retention of business rates remains a significant area of concern. This will be reviewed as information and guidance on how the scheme will work is released. An updated MTFs will be brought back to Members as soon as more is known.</p> <p>Business rates retention taken out of Queen's speech June 2017, awaiting further information.</p>
<p>Page 110</p> <p>CRR02 Managerial / Professional <u>Cause:</u> The Council has a legal obligation to protect personal data. The Information Commissioner has the power to levy significant financial penalties up to £500k for data breaches.</p> <p><u>Risk:</u> Major data breach or leak of sensitive information to a third party.</p>	<p>People and businesses come to harm and suffer loss that might not otherwise have occurred</p> <p>Complaints / claims / litigation</p> <p>Resources consumed in defending claims</p> <p>Financial losses</p> <p>Fines from regulators</p> <p>Adverse publicity</p> <p>Reputation damage</p>	Jane Eaton		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Jeannine Batchelor (Interim)	▶		<p>June 2017 Update:</p> <p>About 50% of staff have now completed the e-learning Data module. The remainder now need to complete the module. A report has been taken to Senior Leadership Team setting out the relevant issues around GDPR implementation. A briefing for all Service Managers is scheduled to take place.</p> <p>Decision taken by SLT not to replace Head of Service until review of Legal Services has been completed.</p>
				CRR.02.2 Develop Strategy for implementation of General Data Protection Regulations (GDPR) (to follow)	Jeannine Batchelor (Interim)	▶		
				CRR.02.3 Provide a programme of training on Information Security to all staff.	Jeannine Batchelor (Interim)	▶		
				CRR.02.4 Annual PSN Accreditation	Dave Briggs	▶		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR03 Legal Cause: The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses.</p> <p>Risk: The Council is found to have failed to fulfil its obligations under the Act in the event of a civil contingency.</p>	People and businesses come to harm and suffer loss that might not otherwise have occurred	Trevor Beadle (Interim) (Adam Chalmers from Sept.)		CRR.03.1 Update corporate business continuity plan and regular review.	Trevor Beadle	▶		<p>July 2017 Update:</p> <p>CRR.03.1 – Full review completed but small changes due to take place in near future. Currently, servers are planned to be rebuilt at Worthing BC facility and drill hall still to be used as a meeting hub.</p> <p>CRR.03.2 – All departmental plans are due for their annual review by service heads in August/September and audited by the emergency planning officer in October/November. All dependencies detailed in the departmental plans will inform IT disaster recovery planning.</p> <p>CRR.03.4 - Hop Oast offices now completed.</p> <p>A training exercise has been arranged for Autumn 2017, and an emergency planning briefing for all Heads of Service is taking place w/c 17/07/17</p>
	Complaints / claims / litigation			CRR.03.2 Update departmental business continuity plans and regular review.	Trevor Beadle	▶		
	Resources consumed in defending claims			CRR.03.4 Build IT disaster recovery procedure into new Hop Oast development (warm site). Further plan revision will be made to reflect changes.	Trevor Beadle	▶		
	Financial losses			CRR.03.5 Bitesize workshops in 2017 and 2018 to address new procedures and processes and all SLT and heads of service will be invited	Trevor Beadle	▶		
	Censure by regulators			CRR.03.6 Pick up Emergency Planning changes due to changes to Heads of Service (e.g. Mark Pritchard, Paul Cummins leaving)	Trevor Beadle	▶		
	Reputation damaged							
<p>CRR05 Governance Cause: Managers are responsible for ensuring that controls to mitigate risks are consistently applied.</p> <p>Risk: Officers are either unaware of expected controls or do not comply with control procedures.</p>	Failure of business objectives	Jane Eaton		CRR.05.04 Complete Blitz on Bureaucracy	Jeannine Batchelor (Interim)	✔		<p>June 2017 Update:</p> <p>Risk reviewed annually (cyclical). Annual assurance statement comments received and statement completed.</p> <p>Blitz on Bureaucracy complete. Unnecessary controls removed and more serious ones in preparation to report to management team in late June. Project will then be complete. Two items to go to SLT for their consideration.</p>
	Health & Safety			CRR.05.1 Officer training	Jane Eaton	✔		
	Financial			CRR.05.2 Raise the profile of risk and control by incorporating them into the performance management framework (e.g. integrate into appraisal process).	Jane Eaton	✔		
	Service Delivery			CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Jane Eaton	✔		
	Compliance with Regulations							
Personal Privacy Infringement								
Reputation damage								

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR06 Physical Cause: The Council is responsible for the health &amp; safety of its tenants, staff and other stakeholders, owns and maintains significant assets, and also has responsibility for H&amp;S in some partner organisations where it does not have operational control.</p> <p>Risk: A health &amp; safety failure occurs.</p>	<p>People come to harm</p> <p>Complaints/ claims/ litigation</p> <p>Financial losses</p> <p>Censure by audit / inspection</p> <p>Reputation damage</p> <p>Adverse effect on morale</p> <p>Stress and absenteeism</p>	Jane Eaton		CRR.06.2 Develop and implement a corporate inspection strategy (By 30/06/16).	Robert Laban / Health & Safety Officer			<p>June 2017 Update:</p> <p>CRR.06.2 -Corporate H&amp;S Adviser continues to inspect HDC premises; ongoing.</p> <p>A more formal process is being developed by Head of Property, Human Resources and Mike Marchant for implementation asap. Some fire safety assessments already completed by Mike Marchant.</p> <p>CRR.06.3 - H&amp;S responsibilities are set out in the Corporate H&amp;S Policy and H&amp;S subject policies. Directorate H&amp;S Working Groups are responsible for implementing these policies. Team self-audits will provide good indication of how well directorates are implementing H&amp;S policies and to identifying training needs. These can commence from late 2017.</p> <p>A H&amp;S Training matrix has now been published as part of a new corporate competencies framework.</p> <p>E-learning courses for H&amp;S key topics are accessible via Horsham LAB; a corporate e-learning strategy/ promotion will make this more prominent.</p> <p>CRR.06.04 - The introduction of a central repository for risk assessments has been deferred until the introduction of Office 365 in 2017/18, which may provide a cost effective solution. Alternative opportunities may be considered where the council buys other software that may also include such functionality.</p>
				CRR.06.3 Clarity of responsibilities and implementation of a training programme	Robert Laban			
				CRR.06.4 Implement a central repository for risk assessments	Robert Laban / Health & Safety Officer			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR07 Managerial / Professional <b>Cause:</b> There is a lack of corporate consistency in terms of the way in which contracts are managed, and contract management is inadequate in some areas.  <b>Risk:</b> Failure of contract / poor service delivery / failure to achieve value for money.	Failure of business objectives Financial Service delivery Compliance with regulations Personal Privacy Infringement Reputation damage	Jane Eaton		CRR.07.1 Specific contract management guidelines will be developed.	Jane Eaton	▶		<b>June 2017 Update:</b>  Specialist audit to be carried out in 2017/18, findings will inform corporate approach. Also consider a joint approach with our procurement partners
				CRR.07.2 A contract management training programme will be designed and implemented.	Jane Eaton	▶		
CRR12 Partnership / Supplier / Contractual <b>Cause:</b> The Council is subject to EU procurement rules and regulations, is putting more services out to tender, and contractors are increasingly challenging contract awards.  <b>Risk:</b> A contractor successfully challenges an award (e.g. on inflexible price:quality ratios).	Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale	Jane Eaton		CRR.12.1 Staff training	Jo Newton-Smith	✔		<b>June 2017 Update:</b>  CRR.12.2 Procurement Code has been reviewed and amended to reflect constitutional revision and best practice guidelines. Training provided to Managers Forum on changes.  CRR.12.4 Six monthly update to SLT. Issues reported to JE by exception.
				CRR.12.2 Up-to-date procedures (by 31/7/17).	Jo Newton-Smith	✔		
				CRR.12.3 Reference to Procurement Team for advice (ongoing)	Jo Newton-Smith	▶		
				CRR.12.4 Proactive monitoring by the Procurement Team.	Jo Newton-Smith	▶		
CRR14 Customer/Citizen <b>Cause:</b> The negotiation of Section 106 and CIL (Community Infrastructure Levy) are essential for ensuring necessary level of infrastructure provision for residents.  <b>Risk:</b> Failure to negotiate the optimum outcome. Failure to deliver the infrastructure needs of the District	Reduced funding to deliver outcomes for the community	Chris Lyons		CRR.14.1 Ensure that leisure priorities are understood within the CIL schedule process and keep under review	Trevor Beadle	▶		<b>June 2017 Update:</b>  Council agreed at its meeting on April 26 to adopt the CIL Charging Schedule with implementation from 1 October 2017 or as soon as practicable thereafter.  CIL Procedures Working Group meets regularly and work is ongoing to ensure that the Council is prepared for implementation from this date.  The Planning Obligations and Affordable Housing SPD is to be reported to Cabinet 21 September for adoption in advance of CIL implementation.  Note: Housing White Paper of 7 February 2017 indicates there is
				CRR.14.2 Identify the impact of funding erosion with competing partners e.g. WSCC	Barbara Childs	▶		
				CRR.14.3 Update the Planning Obligations SPD (Supplementary Planning Document) and CIL charging schedule.	Barbara Childs	▶		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
								likelihood that Government will change CIL system in the Autumn Statement 2017, based on the CIL Report that was published alongside White Paper. There is likely to be a two year transition period to any new system when CIL can then be reviewed alongside the Local Plan Review.
<p>CRR17 Cause: The External Auditors audit the HDC Benefits Grant Subsidy return to the Department for Work and Pensions (DWP) on an annual basis to identify errors. Targeted sample testing is undertaken to ensure that housing benefit claims have been correctly administered, and extended sample testing is carried out should errors be identified. The amount of the error is then extrapolated across the entire population (for that particular cell) to produce an estimate of the total error amount. Where errors are identified, the Subsidy Claim may be qualified, and financial penalties may occur. It is important to note that the Administration of Housing Benefit is undertaken by the CenSus Partnership and Benefits staff are employed by Mid-Sussex..</p> <p>Risk: Errors may be made which are not identified by quality control checking. This may result in the Benefit Subsidy claim being qualified and/or financial losses.</p>	Financial Service Delivery Compliance with regulations Reputation	Jane Eaton		CRR.17.1 Increase / improve the level of quality control checking.	Tim Delany			<p>June 2017 Update:</p> <p>17.1 After completion of new entrant training, QA random checking has been increased; current Accuracy Rate is at 98%</p> <p>17.2 This plan is embedded in the organisation and continues to be implemented.</p> <p>17.3 A dedicated team of appropriately skilled agency staff overseen by a CenSus technical officer continue this exercise. The 'end of May' date has been extended and will now continue until the end of July.</p> <p>17.4 On 25 May, subject to reaching a satisfactory legal and financial agreement Cabinet agreed to transfer the service to LGSS, from a date no later than 1 October 2018. Discussions on the detail of the agreement are underway. LGSS has a good record of improving performance of services experiencing losses of this type.</p> <p>Go Live date agreed as 1 April 2018.</p>
				CRR.17.2 Continued implementation of the Census Quality Plan which came out of the 2013/14 audit.	Tim Delany			
				CRR.17.3 A reassessment of all "Working Age In Work" cases will be undertaken by the end of May 2017.	Tim Delany			
				CRR.17.4 Explore options for future service provision	Jane Eaton			
				CRR.17.6 Complete successful transfer to new provider by April 2018	Jane Eaton			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR 18 Technological Cause: Council services are increasingly reliant on IT systems at a time when there are greater opportunities for malicious attackers to exploit security weaknesses.</p> <p>Risk 1: A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.</p> <p>Risk 2: IT not working due to environmental problems: fire, flood, power cut</p>	<p>Loss of key systems resulting in disruption to Council services. Cost of investigation and recovery of systems. Fraud/theft. Loss of the integrity of Council Records. Exposure of sensitive/ personal data resulting in penalties from the ICO. Reputational or political damage from adverse media coverage.</p>	Jane Eaton		CRR.18.1 Staff Training	Claire Oliver / Robert Laban			<p>June 2017 Update:</p> <p>PSN submission complete. Remediation ongoing Patching of devices ongoing</p> <p>Following the ransomware attack that affected the NHS, it was confirmed by the Head of IT that HDC was not at risk as all PC's in use by HDC had been upgraded from Windows XP some time ago and the latest Microsoft update was carried out as scheduled in April 17. Running checks on the server are carried out to make sure all is in order. Our public facing systems are totally locked down.</p>
				CRR.18.2 Awareness of current threats	Dave Briggs (Andrea Curzon)			
				CRR.18.3 An effective ICT Service delivery team	Dave Briggs (Andrea Curzon)			
				CRR.18.4 Effective patching and updates to mitigate known vulnerabilities	Dave Briggs (Andrea Curzon)			
				CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)	Dave Briggs (Andrea Curzon)			
				CRR.18.6 Effective policies in place which outline security requirements for users of ICT	Jeannine Batchelor			
				CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.	Dave Briggs (Andrea Curzon)			
				CRR.18.8 The CenSus Cloud will transfer the risks to the cloud provider	Dave Briggs (Andrea Curzon)			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR19 Cause: Uncertainty in the UK and World economy. The Government has spoken about an additional 5% reduction in local government funding, and further cuts in years to come.</p> <p>Risk: The impact on the financial markets and the pound could bring forward the next recession and cause a slowdown in the housing market. This may result in a reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims.</p>	Financial Service Delivery Compliance with Regulations	Jane Eaton		CRR19.2 Monitor the external environment	SLT	▶		<p>June 2017 Update:</p> <p>The uncertain economic environment is being continually monitored.</p>
				CRR19.3 Monitor internal indicators, particularly income generation	SLT	▶		
				CRR19.4 Future Horsham focuses on productivity and commercialisation reviews; these will provide recommendations going forward. (Programme of reviews to be completed by 30.09.2018)	Chris Lyons	▶		
<p>CRR20 Technological Cause: There is an inherent risk when significant financial systems change. Current contract for Financial Management System (FMS) expires November 2017.</p> <p>Risk: System that has not been adequately tested or is without the right level of functionality goes live. Lack of integration with other systems that requires significant systems re-processing.</p>	Incorrect data migration Data inaccuracies Inaccurate reporting and decision-making Failure to achieve agree objectives and deliver statutory services Poor VfM			CRR.20.1 Monitor and control Joint tender process (with A&WDC) in line with procurement requirements.	Dominic Bradley	✔		<p>June 2017 Update:</p> <p>The contract with Technology 1 was signed at the end of October 2016.</p> <p>The project initiation stages phases of site data collection and prototype build have been completed. Key user training and data migration are progressing as planned.</p> <p>The implementation is currently on schedule with the anticipated 'go-live' date expected to be in September 2017.</p>
				CRR.20.2 Training and implementation for finance users. Parallel running of old and new system.	Dominic Bradley	▶		
				CRR.20.3 Training and implementation for all Council users to enable access and self-service usage of new system.	Dominic Bradley	▶		
				CRR.20.4 Project management and sufficient testing time incorporated into plan.	Dominic Bradley	▶		
				CRR.20.5 Ensure procedure notes for new system and skills are maintained.	Dominic Bradley	▶		

## Report to Audit Committee

25<sup>th</sup> July 2017

By the Chief Internal Auditor

### INFORMATION REPORT

Not Exempt



**Horsham  
District  
Council**

## Internal Audit – Quarterly Update Report

### Executive Summary

This report summarises the work completed by the Internal Audit Section since March 2017.

### Recommendations

The Committee is recommended to:

- i) Note the summary of audit and project work undertaken since March 2017.

### 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 system of internal control.

### Background Papers

Internal Audit Reports and Correspondence

**Wards affected:** All.

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

## Background Information

### 1 Introduction and Background

- 1.1 The purpose of this report is to provide a quarterly summary of work undertaken by the Internal Audit Team since March 2017.
- 1.2 The Accounts and Audit (England) Regulations 2015 state that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.” This responsibility is discharged through the Council’s Internal Audit Section.

### 2 Relevant Policy / Professional Standards

- 2.1 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.
- 2.2 Internal Audit is conducted in accordance with the Council’s Constitution. Financial Procedure Rule 4e 32 states that: “the Chief Finance Officer, as determined by the Council, will ensure that the Council has appropriate arrangements in place to maintain an adequate and effective internal audit”. The terms of reference for Internal Audit are detailed in the Council’s Internal Audit Charter which is approved and reviewed by the Audit Committee.

### 3 Summary of Audit Findings

#### 3.1 Council Tax

OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE** (↑)<sup>1</sup>

There is a sound system of control and controls are being complied with. One minor weakness was identified which was considered to be low priority.

#### 3.2 Payroll

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

The auditor was able to confirm that all expected key controls were in place for the Payroll process. From the sample testing carried out, Internal Audit did not identify any areas of non-compliance. Two low priority recommendations have been made and appropriate actions have been agreed.

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

(↑) = Improved.

(↔) = No change.

(↓) = Reduced.

If blank ~ No previous opinion

### 3.3 BACS

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

Following the departure of the Senior Technical Support Analyst, it was identified that work agreed when the area was last audited had not been fully completed. This work will now be undertaken by a “third line” ICT support technician.

### 3.4 Project Governance ~ Broadbridge Heath Leisure Centre

**OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE**

Most of the expected project governance controls are in place, and are operating effectively. However, the risk register proforma (provided by the external project manager) does not conform to the Council’s corporate model, and the risk register is fundamentally flawed. The risk register does not specifically identify “current” levels of risk; the Council’s risk appetite has not been considered when measuring the level of risk; and control actions are not clearly stated. The external project manager has undertaken to reconstruct the risk register so that it meets the Council’s requirements.

It is important that the above issues are resolved as soon as possible given that the contract is about to be signed and the construction stage is about to commence.

### 3.5 Buildings Maintenance and Facilities Management

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

- A monthly contract variation spreadsheet is received from Scottish & Southern Electricity PLC detailing all contract costs to date. All additions to (and subtractions from) the original contract sum are recorded to give an up to date financial position. Internal Audit reviewed the spreadsheet and identified a number of discrepancies. In addition, inconsistencies were identified with the format of the document. The auditor was informed that a “reasonableness” check was being carried out rather than a detailed review. It has been agreed that the variation spreadsheet will be more rigorously checked in future, and the spreadsheet will be appropriately annotated as required to provide greater clarity.
- At the time of the audit the formal contract document was not in place between HDC and SSE. The auditor was informed that the contract document had not yet been signed by SSE although the contract had commenced in October 2015. This was raised during the audit and a signed contract is now in place.

### 3.6 Risk Management

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

The risk management system operating at Horsham D.C. is an effective process that has previously been endorsed by external consultants who were appointed in 2014/15 to review the Council’s risk management and assurance framework.

The level of compliance with the risk management process is variable, and in a small number of cases, the content of departmental risk registers needs to be improved.

The requirement to escalate “red” risks to senior management has never been formally embedded, and is another area for improvement. It has been agreed that “red” risks will be discussed at future Directorate meetings and significant risks will be considered by the Senior Leadership Team for inclusion in the Corporate Risk Register.

### 3.7 Treasury Management

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

The auditor was satisfied that a sound system of control is in place for Treasury Management including strategic management and oversight of investment decisions.

Audit testing identified a few areas for improvement including ensuring that evidence of checking monthly reconciliations is documented and retained. The spreadsheet system being used for monitoring movements on Money Market Funds and Pooled Funds will be reviewed to ensure it is adequate to provide a clear record of investment transactions.

### 3.8 NNDR

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

- A regular review of charitable relief cases is required to ensure that the relief is still applicable. Testing of a sample of 30 cases where mandatory charitable relief was being applied (10 for each of the three CenSus authorities) identified 16 cases where mandatory relief had been approved over three years ago, but entitlement had not been reviewed since. It was also noted that the ‘Mandatory Relief – Charities’ procedure notes do not include a procedure for reviewing continued entitlement to mandatory relief. Where entitlement to charitable relief is not regularly reviewed, there is a risk that organisations may continue to receive rate relief where they no longer have charitable status. It has been agreed that a 10% check will be carried out every three years.
- Testing of a sample of 15 properties selected from inspection lists generated by the Academy system for the three CenSus authorities identified that 12 properties had not been visited during 2016/17. Where empty properties are not inspected, there is a risk that empty property relief may be given in respect of occupied properties. A new process is due to commence during 2017.

### 3.9 Housing Benefits

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

- Daily Quality Assurance (QA) checks are undertaken by CenSus throughout the year. Samples selected for testing from the Academy system are normally based on criteria which targets high risk areas. For a six month period commencing July 2016, new trainee assessors were subject to 100% checking of their assessments. During this period the normal QA arrangements for the rest of the team were

suspended. The Benefits Manager stated that resources were not available during this period to undertake QA checks of the other assessors. Whilst it is acknowledged that this was a challenge, it is clear that the change in focus had left the Council exposed to a higher level of risk in terms of the accuracy of data input.

Our audit included a review of QA checks of the other assessors prior to July 2016 (first quarter), and it was concluded that the number of errors identified during the QA checking process was not insignificant (123 errors were recorded). In particular, issues with income calculations and effective dates accounted for 72% of the errors identified during this period.

Checking of all assessors' work was subsequently reinstated. In addition the auditor was informed that all income cases would be checked prior to the subsidy audit by a team of contractors.

Data from the QA checking is maintained which identifies the main areas giving rise to error and individuals needing further training. This information will continue to be used to develop the ongoing training programme for individuals and general team needs.

### 3.10 Cash and Bank

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

- There were problems throughout the year (2016/17) in completing and balancing the monthly bank reconciliations. Work to resolve issues was ongoing and the difficulties were attributed to unavoidable staff changes and absences. The overall difference has now been reduced to £70. The monthly bank reconciliation is currently a complex and laborious manual process which will be redesigned when the new Financial Management System is introduced during 2017/18. Until the transition process has been completed, current practice will be managed to achieve an acceptable result with minimum input.
- The Financial Toolkit on the Council's Intranet requires updating to take into account changes in the Council's Constitution. It is planned to update the information on the Intranet following the introduction of the new Financial Management System. It is expected that other changes to procedure notes will be needed at that time.

## 4. Other Audit Work

### 4.1 National Fraud Initiative / Special Investigation

An investigation was carried out as a result of a data match reported by the National Fraud Initiative exercise. Internal Audit presented management with a report, and the audit findings resulted in the resignation of a member of staff.

## 4.2 Business Continuity (Consultancy Work)

The Council's Emergency Planning Officer completed his own review of departmental Business Continuity Plans during 2016/17. Internal audit reviewed the outcomes of the review and convened meetings with senior officers to discuss a number of concerns.

Internal Audit has made a number of recommendations and the following actions have been agreed:

- (i) Departmental Business Continuity Plans will be written for ICT and Leisure Services.
- (ii) A Business Continuity Team will be set up under the chairmanship of the Director of Corporate Resources.
- (iii) The Hop Oast Depot will be used as the Council's future "Warm Site" until application systems are moved into the Cloud. The "warm site" at Hop Oast will be operational by the end of June 2017.
- (iv) A Disaster Recovery Plan will be developed and documented by the end of June 2017.

## 4.3 ANPR System (Interim Report)

The Council introduced a new ticketless Parking system in August 2014. Initially the system was introduced into 'Swan Walk' before being rolled out in two other main car parks, 'The Forum' and 'Piries Place'. The system uses Automatic Number Plate Recognition (ANPR) technology supplied by Newpark Solutions.

In October 2016 Internal Audit agreed to carry out some analysis of the reports that are available from the system using the Data Analytics tools "IDEA". The purpose of the exercise was to provide Parking Services management with a greater understanding of the effectiveness of the ANPR system in meeting its objectives.

Audit tests were carried out using IDEA, and several recommendations were made. It was agreed with the responsible Director that Internal Audit should undertake some further work on a consultancy basis during 2017/18.

## 4.4 Orbis Partnership<sup>2</sup>

It is anticipated that the "go live" date for integration into Orbis Internal Audit services will take place on 1<sup>st</sup> April 2018. The Chief Internal Auditor now attends the Orbis managers' meetings and as part of the transition arrangements, it is anticipated that auditors will soon be auditing at different sites (resource switching) so that implementation is seamless. Orbis has developed its own set of procedures and templates which we have started to adopt.

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<sup>2</sup> The Orbis Partnership comprises three sovereign authorities: Surrey County Council, East Sussex County Council and Brighton and Hove City Council.

## **5 Audit Plan ~ Progress Update**

- 5.1 86% of the original audit plan for 2016/17 was achieved. More detail is contained in the Annual Audit Report.
- 5.2 The audit plan for 2017/18 is progressing (see Appendix 2 for the current status). It is important that there is an element of flexibility built into the annual audit plan to respond to emerging risks and changing priorities.

The following amendments have been made to the audit plan for 2017/18:

- (i) The Parking Enforcement audit has been replaced by the “consultancy” review of the ANPR system.
- (ii) The audit of mobile devices has been replaced by an audit of cyber controls (following the recent well-publicised ransomware attacks).

The audits of Parking Enforcement and Mobile Devices will be considered for the 2018/19 audit plan.

## **6 Next Steps**

- 6.1 The Committee will be kept informed about progress in terms of the audit plan and integration into Orbis.

## **7 Outcome of Consultations**

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

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

- 8.1 Not applicable.

## **9 Resource Consequences**

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

## **10 Legal Consequences**

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

## **11 Risk Assessment**

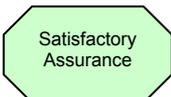
- 11.1 All Internal Audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit assurance opinion. See Appendix 1 for audit report assurance definitions.

## **12 Other Considerations**

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

# Appendix 1

## SUMMARY OF INTERNAL AUDIT ASSURANCE OPINIONS

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

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**APPENDIX 2**

**= Current Status**

**ANNUAL AUDIT PLAN 2017/18 ~ PROGRESS UPDATE**

<b>Annual Audits ~ Key Financial Systems</b>		<b>STATUS UPDATE</b>		
		<b>Commenced</b>	<b>Draft Report Stage</b>	<b>Completed</b>
1	Ernst & Young Key Financial Controls (ISA)			
2	Cash & Bank			
3	Council Tax (CenSus Partnership)			
4	Creditors			
5	Debtors			
6	Housing Benefits			
7	N.N.D.R. (CenSus Partnership)			
8	Payroll			
9	Treasury Management			

**Annual Audits ~ Other**

10	Contracts			
11	Computer Audit ~ Cyber Controls			
12	General Data Protection Regulations (New Legislation)			
13	Governance ~ the Council's Forward Plan			
14	Ethics, Culture & Behaviours (B/F from 2016/17)			

**4 Year Cycle**

15	Use of Consultants (B/F from 2016/17)			
16	Casual Workers (including the new IR35 Regulations)			
17	Parking ~ ANPR System ~ Consultancy assignment			
18	Commercial Rents			
19	Community Link / Alarm			
20	Taxi Licenses			
21	Specific Security follow up (non-Parkside buildings)			

**Other Work**

Annual Governance Statement			
Rural Car Parks ~ Annual Charging (New Process)			
FIS Replacement			
Cloud Computing			

**Unscheduled Work**

	<b>In Progress</b>	<b>Completed</b>
Special Investigation ~ Printing		
Duplicate Payments Testing		

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## Report to Audit Committee

25<sup>th</sup> July 2017

By the Chief Internal Auditor



**Horsham  
District  
Council**

### INFORMATION REPORT

Not Exempt

## Internal Audit – Annual Report

### Executive Summary

This report has been compiled to:

- Provide a statement on conformance with the Public Sector Internal Audit Standards.
- Summarise the effectiveness of internal audit work.
- Summarise the work undertaken by Internal Audit during 2016/17 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.

### Recommendations

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

### Reasons for Recommendations

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

**Background Papers:** Internal Audit Reports and Quality Assurance Improvement Programme self assessment document.

**Consultation:** N/A

**Wards affected:** All

**Contact:** Paul Miller, Chief Internal Auditor, Ext 5319

# Background Information

## 1. Introduction and Background

### 1.1 Purpose of Report

The main purposes of the report are to:

- Provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the Quality Assurance Improvement Programme.
- Comment on the performance of the Internal Audit Section during the year.
- Summarise the work undertaken by the Council's Internal Audit Section and provide management and Members with an opinion on the adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

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

### 1.2 Quarterly Reports

The Audit Committee receives quarterly reports on the work carried out by Internal Audit as part of the Council's governance arrangements.

### 1.3 Strategic Audit Plan

The Internal Audit Team works to a four year strategic audit plan, prepared by the Chief Internal Auditor, and aims to review the Council's major areas of operation and systems on a rolling cycle. The strategic plan was developed using a risk-based assessment which determines priorities and time allocations for each audit. Areas and systems which are considered to be fundamental to the Council's operations, or that are considered to be high risk, are normally reviewed on an annual basis.

### 1.4 Staffing

During 2016/17, the audit team operated with 3.6 members of staff (three full time employees and one part-time). All auditors have the requisite experience to effectively fulfil their responsibilities, and three members of staff are professionally qualified.

## **2. Relevant Policy / Professional Standards**

### **2.1 Statutory Background**

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

### **2.2 Relevant Professional Standards**

Internal Audit follows the standards set out in the Public Sector Internal Audit Standards 2013 (updated 01/04/17).

The Chief Internal Auditor is required to report on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment.

### **2.3 Relevant Council Policy**

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

## **3. Compliance with the Public Sector Internal Audit Standards**

3.1 The Council’s Internal Audit Service is operated in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1st April 2013. The standards require the Chief Internal Auditor to undertake a self-assessment of the internal audit service against a Quality Assurance and Improvement Plan (QAIP) checklist and to outline the results as part of the Annual Audit Report.

3.2 There are a few areas of non-conformance which are detailed in Appendix 1. The only significant issue relates to the requirement for the internal audit function to be reviewed by an external organisation on at least a five yearly basis.

3.3 It was originally intended that Horsham would be externally reviewed during 2016/17, but the review was postponed due to the uncertainty surrounding the future service provision of the audit service. From 1<sup>st</sup> April 2018, the Internal Audit service will be provided by Orbis<sup>1</sup> who will commission their own external review.

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<sup>1</sup> Orbis is a new Internal Audit Partnership being formed between Surrey County Council, East Sussex County Council, and Brighton & Hove City Council.

3.4 Internal Audit Team has maintained its independence throughout 2016/17 in accordance with the Audit Charter.

#### **4. Effectiveness of Internal Audit**

##### **4.1 Performance against the Annual Internal Audit Plan**

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

During the year, 86% of audits were completed against a target of 85%. A summary is given below:

	<u>No. of Audits</u>
Original Audit Plan	36
(Less) audits not completed	<u>(5)</u>
	<u>31</u>

The following pieces of work were also undertaken:

- Audit of the new bulky bag process.
- Disabled Facilities Grant Certification audit.
- Review of the Housing Benefit Subsidy for 2015/16 and subsequent consultation with the Director of Corporate Resources and Members.
- Three special investigations completed.
- National Fraud Initiative work.
- Development of a project risk management toolkit.
- Routine risk management training to a number of service managers and risk champions.
- Audit testing of a new supplier e-form.
- Review of new E-Bay Protocol.
- Project lead on proposed shared service with Arun and Chichester District Councils.

Planned reviews not undertaken:

- IT / Data Governance.
- Computer Audit ~ New Finance System.
- Use of Consultants.
- Ethics, Values and Behaviours.
- Communications / Marketing.

#### 4.2 **Implementation of agreed actions within the agreed timescale**

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

From a review of 135 agreed actions for the previous financial year (2015/16), 128 have been implemented (95%) which is a slight improvement on the previous year. Details continue to be reported to the Audit Committee which monitors progress on a quarterly basis.

#### 4.3 **Reporting**

“Draft” audit reports and working papers are subject to a quality review undertaken by the Chief Internal Auditor (CIA) before the final report is issued. There is a performance indicator which measures the percentage of audit reports issued within 15 days of the final audit meeting. The target for 2016/17 was set at 85%, and 88% has been achieved.

Upon receipt of the “points arising” documents from auditors, the CIA undertakes to issue the “points arising” document within 15 days of receipt. Prior to issue, all relevant working papers are reviewed, the points arising document is checked, and further information is requested where appropriate. The target for 2016/17 was set at 85%. This is a challenging target as it does not take into account annual leave absences and busy periods. However, 77% was achieved.

#### 4.4 **Management Feedback**

On completion of each audit assignment, the Chief Internal Auditor consults management formally to obtain their opinion on the approach and value of the audit work. 12 responses were received, expressing 120 constituent opinions, and these are summarised as follows:

Very Satisfied	66
Satisfied	54
Unsatisfied	0

The percentage of “very satisfied” and “satisfied” responses achieved was therefore 100% against a target of 95%.

## 5. Opinion on the Control Environment

- 5.1 This section of the report draws attention to any issues the Chief Internal Auditor considers are particularly relevant to the preparation of the Annual Governance Statement and includes an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment and discloses any qualifications to that opinion, together with the reasons for the qualification.
- 5.2 The overall opinion is that "**Satisfactory**" assurance can be given that there is generally a sound system of internal control designed to meet the Council's objectives, and that the controls are generally being applied consistently. The opinion is based upon audit work undertaken during the year. The number of outstanding agreed action items from audit follow ups has also been taken into account.

<b>Assurance Areas:</b>	
Governance	<p>The Council is committed to the principles of good corporate governance, which are already demonstrated through many aspects of good practice.</p> <p>A number of improvements have been made in respect of the Council's Governance Framework during 2016/17. In particular, the Council's Constitution has been re-written and condensed to reduce bureaucracy. A review of Governance and the revised Constitution attracted national recognition from CIPFA and Lawyers in Local Government.</p>
Risk Management	<p>The Council's risk management framework has been further embedded into the culture of the organisation, and a risk management toolkit specifically for projects has been developed.</p>
Internal Control	<p>The table of internal audit assurance opinions, in Appendix 2, shows the individual audit opinions from the audit assignments undertaken during 2016/17. Where significant control weaknesses have been identified, remedial action has either been implemented or is programmed to be implemented within three months in accordance with the Council's risk appetite.</p>

### **5.3 Qualification to the Opinion**

The audit opinion is based upon, and limited to, the work performed during the year. The opinion does not imply that Internal Audit has reviewed all risks and controls relating to the Council, but is based upon the range of individual opinions arising from risk based audit assignments completed during 2016/17. Opinions for individual audits are detailed in Appendix 2 of this report, and definitions of the opinions can be found in Appendix 3.

### **6. Next Steps**

Not applicable.

### **7. Outcome of Consultations**

Not applicable.

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

Not applicable.

### **9. Resource Consequences**

There are no direct staffing consequences.

### **10. Legal Consequences**

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

### **11. Risk Assessment**

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

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

### **12. Other Considerations**

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

## Appendix 1

### PSIAS Quality Assurance & Improvement Plan ~ Results of Self-Assessment

Standard	Requirement	Explanation / Actions
1110	<p><b>Organisational Independence</b></p> <p>The Chief Internal Auditor (CIA) should report “functionally” to the Board.</p>	<p>At Horsham, the CIA reports functionally to the Audit Committee which is responsible for:</p> <ul style="list-style-type: none"> <li>• Reviewing and approving the Internal Audit Charter.</li> <li>• Reviewing and approving the Internal Audit Strategy.</li> <li>• Reviewing and approving the Annual Internal Audit Plan.</li> <li>• Receiving communications from the Chief Internal Auditor on the Internal Audit activity’s performance relative to its plan and other matters.</li> <li>• Making appropriate inquiries of management and the Chief Internal Auditor to determine whether there is any scope or budgetary limitation that impedes the ability of the internal audit activity to execute its responsibilities.</li> </ul> <p>As stated in the Internal Audit Charter, full Council is responsible for the following:-</p> <ul style="list-style-type: none"> <li>• Approving the internal audit budget.</li> <li>• Approving decisions regarding the appointment and removal of the Chief Internal Auditor.</li> <li>• Approving the remuneration of the Chief Internal Auditor.</li> </ul> <p>The Director of Corporate Resources is responsible for approving the resource plan.</p>
1312	<p><b>External Assessments</b></p> <p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.</p> <p>The scope of the assessment and qualifications / independence of the external assessor must be agreed with the Board.</p>	<p>A cost-effective, collaborative arrangement for external reviews has been agreed amongst local heads of audit within Sussex.</p> <p>However, following the recent decision to outsource the audit function to Orbis, the external review has been postponed.</p>

1321	<p><b>Use of “Conforms to the International Standards for the Professional Practice of Internal Auditing”.</b></p> <p>The Chief Internal Auditor may only state that internal audit activity “conforms” if the results of the Quality Assurance and Improvement Programme (QAIP) support this statement.</p>	<p>Until an external assessment has been conducted, as required by the QAIP, a full conformance statement is not appropriate.</p>
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## Appendix 2

AUDITS	INTERNAL AUDIT ASSURANCE OPINIONS			
	SUBSTANTIAL	SATISFACTORY	LIMITED	NO ASSURANCE
Private Sector Housing Assistance Grants	✓			
Building Control Partnership	✓			
Security			✓	
Recruitment		✓		
Emergency Planning		✓		
Release & Change Management		✓		
PCI-DSS			✓	
Events Management		✓		
Complaints Management		✓		
Software License Management		✓		
Contracts			✓	
Special Collections (Bulky Waste)				✓
Disposal of Bulky Bags	✓			
Debtors		✓		
Creditors		✓		
Budgetary Control		✓		
Council Tax	✓			
Housing Benefits			✓	
Buildings Maintenance & Facilities Management		✓		
Payroll	✓			
Cash & Bank			✓	
BACS		✓		
NNDR		✓		
Treasury Management		✓		
Risk Management		✓		
Project Management Governance		✓		

*Note: Internal audit at Horsham audited the Housing Benefits system on behalf of Horsham, Mid Sussex and Adur District Councils (the CenSus Partnership). The opinions for Council Tax and NNDR have been provided by the Internal Audit teams working on behalf of Mid-Sussex District Council and Adur/Worthing District Council respectively, and reliance has been placed on this work.*

## Appendix 3

### SUMMARY OF INTERNAL AUDIT ASSURANCE OPINIONS

	<p><u>System of Control:</u> There is a sound system of control in place which minimises risk to the Council; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified that expected controls are being consistently applied. Only a few errors or weaknesses were identified, but the level of risk is considered to be minimal.</p>
	<p><u>System of Control:</u> Whilst there is an adequate system of control and all key controls<sup>2</sup> are in place, there are some weaknesses which may place the Council at risk in a few areas; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified a lack of compliance with controls in a few areas.</p>
	<p><u>System of Control:</u> There are several weaknesses in the system of control and / or the absence of one or more key controls, which is placing the Council at risk in a number of areas; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified a lack of compliance with several controls and/or one or more key controls and/or potential risk of abuse.</p>
	<p><u>System of Control:</u> The system of control is generally weak leaving the system open to significant error or abuse; and/or</p> <p><u>Compliance with Controls:</u> Significant non-compliance with basic control processes leaves the processes / systems open to significant error or abuse.</p>

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<sup>2</sup> A **key control** is defined as a control or a group of controls that help to reduce an otherwise unacceptable risk to a tolerable level (i.e. to within the Council's risk appetite).

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## Report to Audit Committee

25<sup>th</sup> July 2017

By the Director of Corporate Resources

### INFORMATION REPORT

Not exempt



## Annual Governance Statement 2016/17

### Executive Summary

The annual review of the Council's governance, risk management and internal control arrangements has been undertaken to support the production of the Annual Governance Statement for 2016/17. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement is correct as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

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

### Recommendations

That the Committee is recommended:

- i) To approve the Annual Governance Statement for 2016/17.

### Reasons for Recommendations

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

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

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

**Wards affected:** All

**Contact:** Julie McKenzie Project Assurance Manager, 01403-215306

**Attachments:**

Appendix A: Annual Governance Statement 2016/17  
Appendix B: Local Code of Corporate Governance  
Appendix C: Governance Assurance Framework  
Appendix D: AGS Action Plan 2016/17  
Appendix E: AGS Action Plan 2017/18

## **Background Information**

### **1 Introduction and Background**

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

### **2 Relevant Council Policy**

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

### **3 Details**

- 3.1 The Annual Governance Statement for 2016/17 is attached in Appendix A.

### **4 Next Steps**

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

### **5 Outcome of Consultations**

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

### **6 Other Courses of Action Considered but Rejected**

- 6.1 None.

### **7 Resource Consequences**

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

### **8 Legal Consequences**

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

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

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

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

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

(i) by a committee; or

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

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

(i) a committee; or

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

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

## **9 Risk Assessment**

9.1 There are no risks associated with this report.

## **10 Other Considerations**

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

**Horsham District Council  
Annual Governance Statement 2016-17**

**1. SCOPE OF RESPONSIBILITY**

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

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

**2. THE GOVERNANCE ASSURANCE FRAMEWORK**

The Governance Assurance Framework has been in place at Horsham District Council for the year ended 31 March 2017 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2016/17 financial year.

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

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

A: Integrity; Ethical Values: the Rule of Law

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

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

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

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

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

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

### 3. CORPORATE GOVERNANCE, VISION AND OBJECTIVES

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

- The Council aims to deliver high quality services that meet the needs of the local community. This is set out in the Council's Corporate Plan for Horsham which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. This is formally reviewed and updated each year.
- The Corporate Plan 2016/17 is on the Council's website.
- The Corporate Plan is supported by the Medium Term Financial Strategy and the Council's annual budget to ensure the implications on the Council's finances are considered when the objectives are set.
- Departmental strategies and annual service plans are developed which support the delivery of the Corporate Plan, by identifying how each department contributes to the delivery of the overall aims and objectives of the Council.
- The Council's Performance Management Framework includes key performance indicators associated with the Corporate Plan. Performance on a basket of key corporate indicators is reported to the Senior Leadership Team, the Cabinet Portfolio Holders and to the Scrutiny and Overview Committee. Annual performance against targets is published on the Council's website in the Performance Indicator End of Year Report. The Council's Annual Report, which is published on the Council's website, provides an annual summary of the year's progress against the stated Corporate Plan priorities.
- Every report submitted to the Cabinet or regulatory committee must outline how the recommended action helps to achieve one or more of the Corporate Plan priorities.

### 4. MEMBERS AND OFFICERS WORKING TOGETHER

The Council's Constitution gives guidance on the roles and responsibilities of Members, the Chief Executive and Chief Officers, and the Scheme of Delegation is periodically reviewed.

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

A review of governance arrangements at the Council was reported to Full Council on 27 April 2016. The Governance Review focused on ensuring Horsham District Council has the most suitable and effective governance arrangements. The process of undertaking this review has widened the collective knowledge and understanding amongst Members.

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

The Council participates in a number of partnerships with other local authorities. In particular the Revenues and Benefits, ICT, Building Control and Procurement. The Council also engages in local community development work with other local public bodies.

## 5. VALUES AND HIGH STANDARDS OF BEHAVIOUR

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

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

The culture of the organisation sets the foundation for the prevention of fraud and corruption by creating an environment that is based on openness and honesty in all Council activities.

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

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

## 6. TAKING INFORMED AND TRANSPARENT DECISIONS AND MANAGING RISK

The Council's Constitution sets out how the Council operates and the process for policy and decision making. A review of the Constitution was completed in September 2016, and the amendments were approved by Full Council on 7<sup>th</sup> December 2016

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

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

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

## 7. CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS

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

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

## 8. ENGAGEMENT WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS

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

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

## 9. DETAILS OF KEY GOVERNANCE MECHANISMS

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

## 10. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council's governance framework includes decision-making processes set out in the Council's Constitution, together with rules and procedures. A review of governance at the Council focussing on political structure and the decision-making process at a high level was completed in April 2016. Recommendations included endorsement of the Cabinet system supported by formal advisory groups; all key decisions to be made by Cabinet in public meetings and an increase in the financial threshold to £250k bringing the Council into line with comparator authorities. It was also agreed to form a Constitution Review Group to review the Council's Constitution. The terms of reference were to make the Council's Constitution less bureaucratic and more user friendly with greater openness and transparency. This was completed in September 2016.

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

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

## 11. IMPROVEMENTS DURING THE YEAR

The following improvements to the Governance Framework were recognised during 2016/17:

- A review of the Constitution was completed in Sept 2016. The Council's Contract Standing Orders and Procurement Code have been updated to reflect the new EU Procurement Regulations.
- An annual review of performance indicators has been undertaken by Heads of Service and the Senior Leadership Team to ensure that these are meaningful and useful in helping services to achieve their objectives.
- The Council's complaints process has been subject to a root cause analysis and as a result we now have fewer complaints.
- Increased focus on project governance and formal reporting to the Senior Leadership Team, and the appointment of a designated project assurance manager.
- A more robust approach has been introduced to improve the effectiveness of budget monitoring and forecasting to support the Council's Medium Term Financial Strategy.

- A new Behaviours Framework and improved (on-line) appraisal system has been introduced for the purposes of enhancing staff performance and improving consistency across the organisation.
- A formalised process for administering and monitoring officer declarations of interest has been introduced in response to an internal audit report issued in June 2016.
- E-Learning training has been re-launched for staff. The initial roll-out has focused on helping to discharge the Council's statutory responsibilities in relation to health and safety and data protection and safeguarding
- A robust training programme has been completed for all staff to ensure the Council adheres to statutory safeguarding responsibilities.

**12. SIGNIFICANT GOVERNANCE ISSUES**

The 2015/16 Annual Governance Statement included an Action plan for 2016/17. Progress is reported in Appendix D

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

**Certification**

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

**Signed**

.....

.....

**Leader of the Council**

**Chief Executive**

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

## Appendix B HDC Code of Corporate Governance

### **HORSHAM DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE**

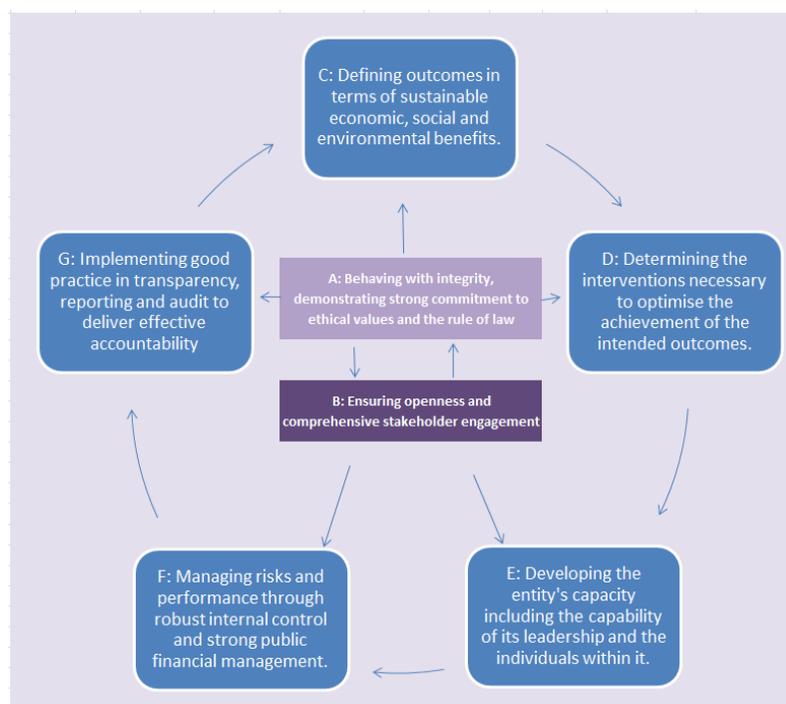
Corporate Governance comprises the systems, processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

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

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

#### **A: Integrity; Ethical Values: the Rule of Law**

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



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

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

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

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

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

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

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

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

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

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

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

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

# Appendix C: HDC Governance Assurance Framework

## ASSURANCE FRAMEWORK



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### Assurance Framework Documentation

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

**APPENDIX D: ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2016/17**

No.	Area for Improvement	Actions	Responsible Officer	Outcomes
1.	Budget holders to undertake their budget monitoring every month and provide more accurate outturn forecasts.	<p>Monitoring of all budget holders on the frequency and accuracy of budget monitoring and forecasting. Regular failure to undertake budget monitoring and accurate forecasting to be more robustly dealt with through people management processes.</p> <p>Local training for budget holders to improve outturn forecasting awareness and skills.</p>	Head of Finance	<p>30/09/16 Completed</p>
2.	The Council's Constitution is currently based on the 2000 model and needs to be re-written. This will improve the Council's governance arrangements and will help to improve engagement with Members.	The Council's Constitution (including contract procedures) will be re-written in consultation with Members and senior officers.	Monitoring Officer	Revised Constitution approved by Full Council 7/12/16
3.	Further development of the behaviours framework to match all of the organisation's values.	<p>Re-establish skills/competencies for employees, especially managers, and training will be provided.</p> <p>New appraisals system launched April 2017</p>	HR & OD Manager	<p>31/03/17 Completed</p>
4.	Procurement of agency staff	Formal tender action underway to establish local framework with other LA's (MSDC & CBC)	Commissioning & Performance Manager	<p>31/03/17 Completed</p>

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

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

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



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