



Horsham District Council

Value for Money Interim Report

Year ended 31 March 2023

18 March 2024



Horsham District Council
Chart Way
Horsham
RH12 1RL

18 March 2024

Dear Audit Committee Members

2022/23 Value for Money Interim Report

We are pleased to attach our interim commentary on the Value for Money (VFM) arrangements for Horsham District Council. This commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23.

The report also considers the likely impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. The National Audit Office (NAO) issued a consultation on 8 February 2024 seeking views on changes to the Code of Audit Practice (the Code) to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements. The consultation proposes to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. At this stage, we are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 27 March 2024.

Yours faithfully

Elizabeth Jackson

Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/auditquality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to Audit Committee and management of Horsham District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Horsham District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Horsham District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary



Executive Summary

Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditor's provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this interim commentary is to explain the work we have undertaken in respect of the period 1 April 2022 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23. The NAO has confirmed that where VFM reporting is outstanding for more than one year, the auditor can issue one report covering all years.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this interim report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings to date from our planned procedures; and
- Summary of arrangements over the period covered by this report (Appendix A).

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report once the audit report has been issued for 2022/23.



Executive Summary (continued)

Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with the Director of Resources (s151 officer);
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements.

As a result, we have no matters to report by exception at this stage of the audit and we will update our interim reporting as part of issuing the final commentary in the Auditor's Annual Report later in the year.

Executive Summary (continued)

Reporting

Our interim commentary for 2022/23 is set out over pages 13 to 18. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2022/23. We have not made any recommendations for the Council in relation to 2022/23 and there were no recommendations in previous years.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Auditor's Annual Report and have been updated for 2022/23.

In accordance with the NAO's 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body's arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified



Executive Summary (continued)

Independence

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

There are no relationships from 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

EY Transparency Report 2023

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2023:

[EY UK 2023 Transparency Report | EY UK](#)



02

Context for the 2022/23 and 2023/24 audits

Context for the 2022/23 and 2023/24 audits

Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

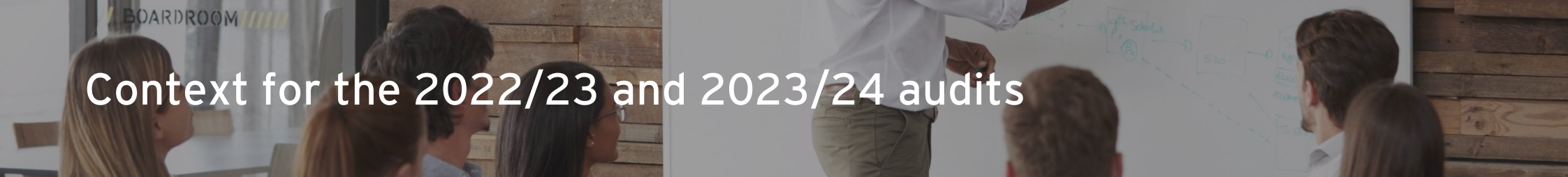
- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- ▶ DLUHC has launched a consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic financial statements and for the financial years 2023/24 to 2027/28.
- ▶ The National Audit Office (NAO) has launched a consultation on amending the Code of Audit Practice to :
 - ▶ Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
 - ▶ Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.
- ▶ The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to launch consultation on temporary changes to the accounting code for preparation of the financial statements. The proposed temporary changes to the financial reporting framework have an impact on both how the financial statements are prepared and our audit procedures necessary to gain assurance.

As a result of the system wide implementation of backstop dates it is likely that we will disclaim the opinion on the Council's 2022/23 accounts. The proposed disclaimer of the Council's 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase.

The changes proposed by the consultations therefore will have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit Committee as the audit planning progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer. We will highlight those areas where we consider it most likely that the proposed measures will impact our audit approach and scope as part of our 2023/24 Audit Planning Report.



Context for the 2022/23 and 2023/24 audits

Responsibilities of Council management and those charged with governance

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Council's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Council resources are readily available to support the audit process, within agreed deadlines. The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done, we will:

- ▶ Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- ▶ Consider the use of other statutory reporting powers to draw attention to weaknesses in Council financial reporting arrangements where we consider it necessary to do so.
- ▶ Seek a fee variation for the cost of additional resources needed to discharge our responsibilities.
- ▶ Impact the availability of audit resource available to complete the audit work in advance of any applicable backstop dates.



03

Value for Money Commentary

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified

Budget outturn report

Horsham District Council have a detailed budget process. The budget is monitored on a monthly basis and quarterly reports are made to the Overview & Scrutiny Committee. This is reported to the Senior Leadership Team (SLT) and Quarter budget monitoring reports to Cabinet. Finance and budget holders prepare monthly forecasting. The Director of Resources holds regular meetings with the Cabinet member for Finance and Resources to discuss financial strategy.

The final operational outturn is a £0.26m surplus for the year after agreeing a carry forward of £0.15m. Rising inflation rates have driven up utility and maintenance costs in housing, there is also an increase in housing need throughout the district, resulting in the service spending £0.59m more than originally budgeted. Significant increases in the cost of HVO fuel and vehicle parts as well as increased staffing costs and medical collection caused a £0.88m overspend in Recycling, Waste and Fleet. These overspends and salary pressures were offset by additional income of £1.35m from the Council's investment activities from higher interest rates and £0.58m additional income from town centre parking.

Spend was £5.19m (43%) of the £12.1m capital budget. £0.95m (7%) was spent in M12. A total 14 of the 56 projects did not start, the largest being Oakhurst extension totalling £1m. There were other notable underspends of £1.3m new vehicles, £1.2m on energy efficiency improvements and £1m on public realm. The Council needs to ensure that the capital programme plans are realistic and achievable.

Medium Term Financial Strategy

The Council is budgeting for breakeven in 2023/24. The net budget requirement for 2023/24, at £13.5m, is £1.2m higher than (£12.3m) in 2022/23, reflecting the significant impact of annual inflationary and salary cost-pressures.

The Council has been able to set a balanced budget in 2023/24 using the one-off Funding Guarantee Grant and due to the increase in fees and charges it agreed in the budget and higher investment income from interest rate rises. No reserves had to be used to balance the 2023/24 budget. Significant projected budget deficits in the latter two years of the Medium-Term Financial Strategy are caused by ongoing inflation and costs from the introduction of food-waste. Whilst consideration about the closure of these future budget gaps should be in the Council's thoughts now, no immediate action is needed in the short term until the uncertainty clears.

An £8.5m capital programme is proposed in 2023/24. To ensure the sufficiency of reserves in future years, officers have updated the indicative list of infrastructure replacement and improvement needed over the next eight years. At the current time, the Council does not have any external borrowing for the capital programme.

Value for Money Commentary (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified

The Council agreed in October 2012 on a minimum level of general reserves of £6m. The budget gaps over the Medium-Term Financial Strategy amount to £3.1m. The general fund is anticipated to stand at around £20m at 31 March 2023, remaining well above the £6m level throughout the Medium-Term Financial Strategy period unless any further information from the Government or changes in the economy indicate a substantial worsening of our financial position beyond that currently predicted.

The Medium-Term Financial Strategy takes a prudent but balanced view of the financial future, but the Council recognises that continuing to take further action is also important to also help mitigate the risks that the Council faces over the medium-term.

The Council has a good track record of delivering transformational programmes. The Council is well progressed with a major programme of digital transformation to meet the demands and expectations of their customers, funded from reserves, and this has delivered savings expected to date. However, the Council believes there is limited further scope for making savings through efficiencies. Therefore, the Council will have to fill the future budget gaps from either reserves, making capital investments to generate revenue income or from future provision of non-statutory services.

The Council also committed to tackling climate change and on 24 September 2020, the Cabinet set an aspirational target for the Council's direct emissions to be carbon neutral by 2030. The medium-term financial plan sets out a high-level estimate of the cost of the Council becoming carbon neutral was also completed. This was calculated to be around £33m although there are no detailed financial plans for achieving this level of investment. In 2022/23, £1m across capital and revenue was committed to boost the work needed to reduce carbon emissions and improve the environment in the district.

The annual reviews are done and approved every February. The constant review of the forecasts enables the Council to identify and manage risks to financial resilience. We also note that the projected budget on the revenue account in 2024/25 to 2026/27 are noted and the medium term financial strategy continues to be reviewed and refined to ensure that decisions are taken to set balanced budgets in these three years.

Conclusion: Based on the work performed to date, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

No significant weakness identified

Horsham District council maintains its risk register ordered by RAG. We have inspected the risk register, we note that risk reviews are performed and reviewed at governing body level which means the governing level reviews organisational risks regularly. Therefore, we note that the Council has procedures in place to review and address identified risks. The risk register is also regularly reviewed by the Audit Committee who challenge the risks included and gain assurance that the right risks and mitigations are included.

Annual Governance Statement for 22/23

We have reviewed the draft Horsham District Council Annual Governance Statement for the period 2022/23 and confirmed the effectiveness of the system of internal controls and maintenance of effective financial management system. This includes the Authority's own review of their Governance Arrangements and risks to these arrangements.

The 2021/22 AGS included an action plan for 2022/23. Progress against the risks identified is reported in Appendix D of the 2022/23 AGS.

In 2022/23, there were no significant issues that needed immediate reporting to the Audit Committee.

Internal Audit reports from the year and anything issued since end of 22/23, including the Annual Report setting out the Head of IA's Opinion for the year and any counter fraud reports

Internal audit is part of the Council governance and risk structure and its outsourced to third party firm (Orbis). Based on our accumulated audit knowledge, this is a reputable firm and we have not noted any issues in their work in based on their prior year reports. In addition to internal audit reviews, Orbis also provides operational reviews where they give a more narrative conclusion with recommendations. We consider these arrangements to be appropriate and of a good standard covering the risk of fraud and effectiveness of controls. In addition, there are a number of policies in place to prevent and detect fraud. Furthermore, we note that in terms of corrective action, Council takes actions against internal audit recommendations for both full audits and for operational reviews and the audit committee holds management to account for these actions.

Based on the annual internal audit work completed, the Chief Internal Auditor can provide reasonable assurance that Horsham District Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2022 to 31 March 2023.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

No significant weakness identified

However, internal audit activities have identified a few areas where the operation of internal controls has not been fully effective, as reflected by the three partial and one minimal assurance issued in the year. None of these lead to any weakness for the value for money reporting.

Each year a significant proportion of Internal Audit's time is spent reviewing the Council's key financial systems. Of those completed during 2022/23, all have resulted in either a substantial or reasonable assurance opinion being provided over the control environment, with the exception of Parking Income which will be formally followed up in 2023/24.

We know from our review of minutes for the meetings of the council, cabinet and audit committee, and attendance at meeting and review of the minutes from these meetings, that these committees meet regularly and that key issues are addressed with effective challenge from members. The Audit Committee perform an annual review of their effectiveness, which includes responses from internal and external audit. The council also include review of the effectiveness and compliance with key policies such as gifts and hospitality, declarations/conflicts of interest in the Internal Audit programme.

The Council published their draft 2022/23 financial statements for audit on the 30 May 2023, in line with the Audit and Accounts regulations, and advertised and held an inspection period for members of the public in line with these regulations. We confirm that the 2022/23 draft financial statements were arithmetically correct, agreed to the data in the general ledger, and were prepared in line with the content required by the CIPFA Code. We identified two casting errors, one on the CIES and one on Note 30 of the financial statements, however these had no impact on actual financial figures reported in the statements and management have agreed to correct the errors. The Council has carried out bank reconciliations during the year. Therefore, appropriate arrangements for financial reporting were in place during 2022/23.

Conclusion: Based on the work performed to date, the Council had proper arrangements in place in 2022/23 to make informed decisions and properly manage its risks.

Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

The Council has a Senior Leadership Team (SLT) which monitors both financial and non-financial performance information and challenges officers where there are any departures from plans or expectation.

The Council have a functional Internal audit function which produce operational reports on some key areas which demonstrate that they are still taking action to deliver their services effectively and timely. Furthermore, the Council annually produce a Key Performance indicators report dashboard. The Q2 report for 2023/24 consists of 34 KPIs which were assessed with 67% meeting the target. This demonstrates that the Council indeed evaluates the services it provides to assess performance and identify areas for improvement.

Narrative Statement

The Council's Narrative Report is included in their draft 2022/23 Financial Statements. The report is prepared by the Director of Resources and Head of Finance and Performance based on the requirements of the CIPFA Code.

The performance figures for the 2022/23 year were reported quarterly to Overview and Scrutiny Committee, with the final outturn reported in June. The Council also reviewed delivery of the Corporate Plan objectives at this meeting.

The Council had nine red performance indicators at 31 March 2023, five of which are in Housing Services and Revenues and Benefits. Performance outside the target is the result of an increase in demand and the accumulation of additional burdens since the outbreak of Covid-19 and then the cost-of-living crisis.

The rising inflation rates and increased cost-of-living has had a significant impact on the lives of Horsham residents and businesses during 2022/23. The Council has also been affected by higher levels of expenditure, but despite increased costs, the Council produced an operational surplus of £0.26m, benefiting from the sharp increase to the Bank of England base rate on its treasury management investment income.

The Council set a balanced budget for 2022/23 in February 2022. The ongoing risk though is that the Council will not be able to generate income levels sufficient to maintain the cost rises created by the high rate of inflation we are experiencing. Early identification of issues will help the Council take action to further mitigate overspends and reduce the impact on cash flows. A £1m earmarked reserve for inflationary pressures remains in the earmarked reserves and is available to mitigate the risk of inflation related overspends in 2023/24 as well as the Council being able to use existing reserves if needed to support residents.

Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

The Medium-Term Financial Strategy will be regularly revisited during 2023/24 as it was in 2022/23, updating the assumptions.

The Council's cash flow though remains healthy. At the current year-end, the Council has £8m of cash and cash equivalents. The value of treasury investments including those classified as cash and cash equivalents ended the year at £75m.

Treasury Management Strategy and monitoring reports for debt and investment decisions

In the most recent issue of the Capital Strategy and treasury management, the Council highlights any investment and treasury management plans for the year 2024/25 and analyses the economy and other factors relating to finances beyond 2023. There is nothing to note for the year 2022/23 regarding investments and other related subjects.

The Council is typically cash-rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowings.

The actual internal borrowing for 2022/23 is nil and actual investments is £75m. The Council is not expecting to borrow long-term funds although it may need short-term borrowing if short term cash flow issues require it.

We maintain the understanding of the entity through review of minutes and agendas of key meetings of the Council, and through periodic discussion with key officers including Chief Executive and Director of Resources - quarterly meetings. In addition, we write to management to update our understanding in specific areas for ISA compliance.

From our minute reviews, meetings with management and general audit work we are generally satisfied with the entity's compliance with laws and regulations.

Conclusion: Based on the work performed to date, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



04 Appendices

Appendix A - Summary of arrangements

Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting criteria considerations

Arrangements in place

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Horsham District Council have a detailed budget process. The budget is monitored on a monthly basis and quarterly reports are made to the Overview & Scrutiny Committee. This is reported to the Senior Leadership Team (SLT) and Quarter budget monitoring reports to Cabinet. Finance and budget holders prepare monthly forecasting. The Director of Resources holds regular meetings with the Cabinet member for Finance and Resources to discuss financial strategy.

The focus is on the income and expenditure budgets, and the net position impacting on the Council Tax and general fund. This links to the key stakeholders (central government, public) expectations that finances are managed to the budget, therefore, managing the impact on the taxpayer. This can be seen in the year end reporting of spending against budgets.

HDC also have the 2023/24 budget and Medium Term Financial strategy to 2026/27 which sets out financial plans on a medium-term and highlights the risk to financial position and mitigations that HDC has in place to counter the risks.

How the body plans to bridge its funding gaps and identifies achievable savings

As noted above the MTFS, produced in the context of significant uncertainty, estimate is for the Council to deliver a balanced budget in 2023/24 followed by budget deficits through to 2026/27. The cumulative amount of the budget deficits over the medium term is ~£5.2m.

The Council has sufficient reserves to absorb these budget deficits over the medium-term financial strategy but recognises that relying on reserves to bridge these gaps is not a sustainable strategy. The Council continues to review potential actions that it could take to balance the budgets in 2024/25 through to 2026/27, which they plan to present to members as part of the 2024/25 medium term financial plan.

The Council has a good track record of delivering transformational programmes, The Council is well into a major programme of digital transformation to meet the demands and expectations of their customers, funded from reserves, and this has delivered savings.

However, the Council believes there is limited further scope for making savings through efficiencies. Therefore, the Council will have to fill the future budget gaps from either making capital investments to generate revenue income or from future provision of non-statutory services.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting criteria considerations

Arrangements in place

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The 2023/24 budget and resultant Council Tax level are set within the context of the Council's Corporate Plan priorities, the financial strategy and to meet the Council's legal requirement to deliver a balanced budget. The Council's Corporate plan was set in 2019, with the following key strategic aims:

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

The Overview and Scrutiny Committee are regularly updated on the status of the Corporate Plan.

The Council also committed to tackling climate change and on 24 September 2020, the Cabinet set an aspirational target for the Council's direct emissions to be carbon neutral by 2030. The medium-term financial plan sets out a high-level estimate of the cost of the Council becoming carbon neutral was also completed. This was calculated to be around £33m although there are no detailed financial plans for achieving this level of investment. In 2022/23, £1m across capital and revenue was committed to boost the work needed to reduce carbon emissions and improve the environment in the district.

As noted above, the Council reviews its budgetary position annually and produces a rolling four year plan, known as the Medium Term Financial Strategy (MTFS). This enables the entity to consider the financial climate at both the local and national level together with available resources and budgetary pressures in order to arrive at a financial strategy. Throughout these processes, each service line is considered individually in order to ascertain whether savings can be made in each of these areas and the potential impact these savings may have. This enables the Council to ensure consistent delivery of services throughout the County and enables them to monitor progress and risks relating to each service area.

Appendix A - Summary of arrangements

Governance

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting criteria considerations

Arrangements in place

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Horsham District council maintains its risk register ordered by RAG. We have inspected the risk register, we note that risk reviews are performed and reviewed at governing body level which means the governing level reviews organisational risks regularly. Therefore, we note that the Council has procedures in place to review and address identified risks. The risk register is also regularly reviewed by the Audit Committee who challenge the risks included and gain assurance that the right risks and mitigations are included. Internal audit is part of the Council governance and risk structure and its outsourced to third party firm (Orbis). Based on our accumulated audit knowledge, this is a reputable firm and we have not noted any issues in their work in based on their prior year reports. In addition to internal audit reviews, Orbis also provides operational reviews where they give a more narrative conclusion with recommendations. We consider these arrangements to be appropriate and of a good standard covering the risk of fraud and effectiveness of controls.

How the body approaches and carries out its annual budget setting process

Each year as the budget is set, unavoidable growth becomes apparent in the services. This is because of increased responsibilities from legislation, contractual obligations and inflationary pressures. The current budget estimate is for the Council to break even in 2023/24 and deficits through to 2026/27. These remain predicted through a combination of income generation and other efficiency measures, as well as some political decisions. The Council is undertaking a major programme of digital transformation to meet the demands and expectations of their customers, funded from any budget surpluses it generates or from reserves.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting criteria considerations	Arrangements in place
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed	<p>The Local Government Act 2003 placed new duties on Local Authorities and their Chief Finance Officers in relation to the setting and monitoring of their budgets.</p> <p>Section 25 requires the s.151 officers to report on the robustness of estimates; and, the adequacy or otherwise of the Council's reserves.</p> <p>Section 28 requires local authorities to monitor their budgets during the financial year and to take remedial action if this is necessary because of potential overspendings and/ or potential shortfalls in income. The council prepare monthly and quarterly finance review reports that include analysis of the council position against the budget to date and forecast for the year. The budget is communicated to the Cabinet every year in January/February (current year budget was tabled to the cabinet in January 2023).</p> <p>Furthermore, we note that in terms of corrective action ,council takes actions against internal audit recommendations for both full audits and for operational reviews and the audit committee holds management to account for these actions.</p>
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	<p>Primary oversight is the responsibility of the council, with some delegated responsibilities (such as financial management) to the Audit Committee and to the Scrutiny Committee which reports to the council. We know from our review of minutes for the meetings of the council, cabinet and audit committee, and attendance at meeting and review of the minutes from these meetings, that these committees meet regularly and that key issues are addressed with effective challenge from members.</p> <p>The Audit Committee perform an annual review of their effectiveness, which includes responses from internal and external audit.</p>

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting criteria considerations

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Arrangements in place

The main responsibility for ensuring appropriate standards such as meeting legislative/regulatory requirements in terms of member behaviour is performed by the Audit Committee who have responsibility for overseeing the policies of the council.

The council also include review of the effectiveness and compliance with key policies such as gifts and hospitality, declarations/conflicts of interest in the Internal Audit programme.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

Reporting criteria considerations

Arrangements in place

How financial and performance information has been used to assess performance to identify areas for improvement

The Council has a Senior Leadership Team (SLT) which monitors both financial and non-financial performance information and challenges officers where there are any departures from plans or expectation.

Financial Information

The budget is monitored on a monthly basis and quarterly reports are made to the Overview & Scrutiny Committee. This is reported to the Senior Leadership Team (SLT) and Quarter budget monitoring reports to Cabinet. Finance and budget holders prepare monthly forecasting. The Director of Resources holds regular meetings with the Cabinet member for Finance and Resources to discuss financial strategy.

Non-financial information

Other performance indicators are reviewed annually by SLT. The indicators are held on the Covalent system where the performance indicators data is entered requires senior officer verification. After the officer has entered their data the relevant manager is sent an email to notify it requires verifying. This is used with the financial information to provide an overview of the Council's efficiency and effectiveness in delivering its services.

We noted this process in action through minute reviews which details assessment of areas for improvement.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The council have a functional Internal audit function which produce operational reports on some key areas which demonstrate that they are still taking action to deliver their services effectively and timely.

Furthermore, the Council annually produce a Key Performance indicators report dashboard. The Q2 report for 2023/24 consists of 34 KPIs which were assessed with 67% meeting the target. This demonstrates that the Council indeed evaluates the services it provides to assess performance and identify areas for improvement.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

Reporting criteria considerations	Arrangements in place
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	<p>As of 25th May 2017 the Council had agreed to enter a partnership with LGSS to deliver its Revenues and Benefits services. This followed a period of dissatisfaction with the previous provider, CenSus (Central Sussex Partnership). The date for the transition of the service was set as 1st October 2018 initially, but was then pushed back to 1st April 2018. The service has been outsourced but the data system currently sites with Census.</p> <p>We maintain the understanding of the entity through review of minutes and agendas of key meetings of the Council, and through periodic discussion with key officers including Chief Executive and Director of Resources - quarterly meetings. In addition, we write to management to update our understanding in specific areas for ISA compliance.</p>
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	<p>From our minute reviews, meetings with management and general audit work we are generally satisfied with the entity's compliance with laws and regulations.</p>

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