

Committee Manager : Erica Keegan (Ext 37547)

12 July 2018

## **AUDIT AND GOVERNANCE COMMITTEE**

A meeting of the Audit and Governance Committee will be held in Committee Room 1 (the Pink Room) at the Arun Civic Centre, Maltravers Road, Littlehampton, BN17 5LF on **Thursday, 26 July at 6.00pm** and you are requested to attend.

Members: Councillors Chapman (Chairman), Mrs Oakley (Vice-Chairman), Ambler, Blampied, Brooks, Cates, Dendle, Mrs Porter, Purchase and Wheel

## **A G E N D A**

1. APOLOGIES FOR ABSENCE
2. DECLARATIONS OF INTEREST

Members and Officers are reminded to make any declarations of pecuniary, personal and/or prejudicial interests that they may have in relation to items on this agenda and are reminded that they should re-declare their interest before consideration of the item or as soon as the interest becomes apparent.

Members and officers should make their declaration by stating :

- a) the item they have the interest in
- b) whether it is a pecuniary, personal and/or prejudicial
- c) the nature of the interest

3. MINUTES

To approve as a correct record the Minutes of the meeting held on 22 February 2018 (which have been previously circulated).

4. ITEMS NOT ON THE AGENDA THAT THE CHAIRMAN OF THE MEETING IS OF THE OPINION SHOULD BE CONSIDERED AS A MATTER OF URGENCY BY REASON OF SPECIAL CIRCUMSTANCES.

5. START TIMES

The Committee is requested to consider its start time for meetings during 2018/19.

6. \*INDEPENDENT REMUNERATION PANEL – RECRUITMENT OF NEW MEMBERS

The Committee has responsibility for considering the membership and appointment of the Independent Remuneration Panel created under the Local Authorities (Members' Allowances) (England) Regulations 2003 to review the Council's Members' Allowances scheme.

Due to the resignation of one of the three panel members, there is a need to urgently recruit new members to the Panel so that the review of the Members' Allowances scheme which commenced recently is not massively delayed.

The ***attached*** report sets out plans for the recruitment process which the Committee is asked to approve.

7. \*RESPONSE TO ERNST & YOUNG ON ANNUAL ASSURANCE LETTER REGARDING ARRANGEMENTS

The Committee is requested to note the ***attached*** correspondence.

8. \*ERNST & YOUNG – ANNUAL FEE LETTER 2018/19

The Committee is asked to approve the Annual Fee Letter for 2018/2019 which is ***attached***.

9. ERNST & YOUNG – AUDIT RESULTS REPORT

This report is not expected to be finalised until nearer the meeting and, therefore, will be circulated to the Committee under separate cover.

10. \*STATEMENT OF ACCOUNTS – 2017/2018

This report provides information about the audit of the Council's 2017/18 Statement of Accounts (accounts) and recommends the approval of the 2017/18 accounts and the Letter of Representation on behalf of the Council.

11. \*ANNUAL GOVERNANCE STATEMENT 2017/18 AND LOCAL CODE OF CORPORATE GOVERNANCE 2017/18

The Annual Governance Statement for 2017/18 and the Code of Corporate Governance for 2018/19 are ***attached*** for the Committee to approve.

12. \*TREASURY MANAGEMENT ANNUAL REPORT – 2017/18

This report updates the Committee on the Treasury Management activities for the 2017/2018 year ***attached***.

13. \*COUNTER FRAUD REPORT – 2017/18

The Committee is the designated body for oversight of the Council's anti-fraud culture. As part of the Committee's annual work plan, an annual report on counter-fraud activity is presented for the Committee to consider.

14. \*CHAIRMAN'S ANNUAL REPORT TO COUNCIL – 2017/18

This is **attached** for the Committee to approve prior to it being recommended onto Full Council.

15. \*INTERNAL AUDIT ANNUAL REPORT & OPINION 2017/18

This report summarises the activities of the Council's Internal Audit service for 2017/18.

16. \*PROGRESS AGAINST THE AUDIT PLAN

The Committee is required to oversee the provision of an adequate and effective internal audit service. Part of this process is to monitor delivery of progress against the Audit Plan and to receive summaries of reports issued.

The Committee is requested to note the contents of the reports **attached**.

17. \*SUMMARY OF FINDINGS FROM REPORTS ISSUED FEBRUARY – JUNE 2018

The Committee is asked to consider the **attached** report.

18. ANNUAL UPDATE ON THE USE OF REGULATION OF INVESTIGATORY POWERS ACT (RIPA) 2010

As required by the Council's Constitution, the Chief Internal Auditor asks the Committee to note that no activity was authorised/undertaken under the Regulation of Investigatory Powers Act (RIPA) 2010 (as amended)

19. \*INFORMATION / ADVISORY DOCUMENTS RECEIVED

- Ernst & Young Local government audit committee briefing **attached**.

20. FUTURE WORKPLAN FOR THE AUDIT & GOVERNANCE COMMITTEE

The Committee is requested to approve the **attached** draft work plan for 2018/19.

Note: \*Indicates report is attached for all Members of the Audit & Governance Committee only and the press (excluding exempt items). Copies of reports can be obtained on request from the Committee Manager or accessed via the website at [www.arun.gov.uk](http://www.arun.gov.uk)

Note: Members are reminded that if they have any detailed questions would they please inform the Chairman and/or relevant officers.

**AGENDA ITEM NO. 6****ARUN DISTRICT COUNCIL****REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE  
ON 26 JULY 2018****SUBJECT: The Independent Remuneration Panel – Recruitment of New Members****REPORT AUTHOR:** Jane Fulton – Committee Services Manager**DATE:** 6 July 2018**EXTN:** 37611**PORTFOLIO AREA:** Corporate Support**EXECUTIVE SUMMARY:**

The Committee has responsibility for considering the membership and appointment of the Independent Remuneration Panel created under the Local Authorities (Members' Allowances) (England) Regulations 2003 to review the Council's Members' Allowances Scheme.

Due to the resignation of one of the three Panel members, this report sets out the recruitment process proposed which the Committee is asked to endorse.

**RECOMMENDATIONS:**

The Committee is requested to:

- (1) Note the current position and endorse the options for recruiting additional members to the Independent Remuneration Panel; and
- (2) Agree and appoint two Members of the Committee to sit on the Independent Remuneration Panel's Interview Panel with one Member being the Chairman of the Committee.

**1. BACKGROUND:**

- 1.1 The Council established an Independent Remuneration Panel under the 2003 Members' Allowances Regulations to undertake reviews of the Council's Members' Allowances Scheme.
- 1.2 At its meeting held on 22 February 2018, the Committee received a report confirming the approach to be taken by the Independent Panel for the next review of the Members' Allowances scheme including a timetable for concluding this review. The Committee also approved extending the terms of office for all three members of the Independent Remuneration Panel to 31 March 2020.
- 1.3 On 3 July 2018, Mr Shire confirmed his need to resign from the Panel due to personal reasons, leaving a Panel membership of two members. The Local Authorities (Members' Allowances) (England) Regulations 2003 at Part 4 – Independent Remuneration Panels, stipulates that an Independent Remuneration Panel shall

consist of at least three members.

1.4 It is proposed that the size of this Council's Panel be increased to between 3 to 5 members to provide more flexibility and to allow new members to be trained alongside the two existing experienced members. This approach will then avoid the need for further recruitment should the membership of the Panel change in the future.

1.5 We therefore now need to recruit at least three new members to the Panel from the business and voluntary sectors in Arun. The proposed recruitments options are outlined below:

- Advert to be placed in the Council's e-newsletter (organised by Economic and Cultural Development) which is circulated to around 3,500 businesses on a monthly basis.
- Same advert to be placed onto the Business Partnership web pages.
- Advert to be sent to Human Resources to be included in positions vacant placed on the Council's web pages
- Place advert (draft attached) in local press (public notices section) in Bognor Regis Observer, West Sussex Gazette and Littlehampton Gazette. Last time this generated interest from two people who were then subsequently recruited onto the Panel.
- Approach other Councils to establish what methods they have used to recruit Panel members.
- Make direct approaches to:
  - Known contacts in local government
  - South East Employers
  - Federation of Small Businesses
  - University of Chichester
  - NHS Trusts
  - The Wellbeing Team and other Partnership contacts

1.6 It is clear from the approaches made from previous recruitment exercises that using these methods works and does attract interest.

1.7 A draft advertisement is attached at Appendix A and a Guidance Note explaining the appointment is attached at Appendix B to this report.

1.8 As set out in the Committee's Terms of Reference in the Council's Constitution, one of the Committee's specific functions is to oversee the work of the Panel, and this includes the recruitment of new members.

1.9 The Committee is also asked to endorse the proposals in terms of the composition of an Interview Panel in that this consists of the Chief Executive or Director in his absence; the Group Head of Council Advice & Monitoring Officer, the Committee Services Manager; and two Members from the Committee, to include the Chairman of the Committee.

**2. PROPOSAL(S):**

The Committee is asked to:

- (1) Note the current position and endorse the plans to recruit at least three new members to the Independent Remuneration Panel as identified in the report; and
- (2) Agree and appoint one or two Members of the Committee to sit on the Independent Remuneration Panel's Interview Panel with one Member being the Chairman of the Committee.

**3. OPTIONS:**

In order to allow the existing review of the Members' Allowances Scheme to continue in line with the timetable agreed by the Committee in February 2018, other options to investigate the creation of a joint Panel with other authorities are not recommended at this time.

**4. CONSULTATION:**

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		
Relevant District Ward Councillors		
Other groups/persons (please specify) <ul style="list-style-type: none"> <li>• All three Group Leaders</li> <li>• The Chairman and Vice-Chairman of the Audit &amp; Governance Committee</li> </ul>		
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	<b>YES</b>	<b>NO</b>
Financial		
Legal		
Human Rights/Equality Impact Assessment		
Community Safety including Section 17 of Crime & Disorder Act		
Sustainability		
Asset Management/Property/Land		
Technology		
Other (please explain)		

**6. IMPLICATIONS:**

If the Committee does not endorse the recruitment proposals outlined, then the current review of the Members' Allowances scheme will not be concluded before the May 2019 District and Town and Parish Council Elections.

**7. REASON FOR THE DECISION:**

To comply with the requirements of the Local Authorities (Members Allowances) (England) Regulations 2003 in appointing Independent Remuneration Panels.

**8. BACKGROUND PAPERS:**

Report to and Minutes of the Audit & Governance Committee held on 22 February 2018 - <https://www.arun.gov.uk/audit-governance-committee>

The Local Authorities (Members' Allowances) (England) Regulations 2003 - <http://www.legislation.gov.uk/uksi/2003/1021/regulation/2/made>

The Council's Constitution – Part 3 – Responsibility for Functions – Section 4 – Committee of Full Council – 4.1 – The Audit & Governance Committee and Part 4 – Officer Scheme of Delegation – Section 2 – Chief Executive – Proper Officer Powers - <https://www.arun.gov.uk/constitution>



## Appendix A

Email: [committees@arun.gov.uk](mailto:committees@arun.gov.uk)**INDEPENDENT PANEL ON MEMBERS ALLOWANCES**

The District Council is seeking to appoint new Members to sit on its Independent Remuneration Panel which reviews Members' Allowances. We are seeking nominations preferably from the Arun Business Community or voluntary sector and if interested, you should be able to demonstrate:

- an understanding of the public sector, particularly local government
- experience of working within the District
- some knowledge of pay and allowances within other organisations
- an ability to undertake research and compile reports
- communication and presentation skills
- the ability to act independently
- the ability to work positively with Members and to be able to openly scrutinise and challenge
- the ability to manage the commitment and workload involved

The new Panel members would be expected to commit between 5 to 10 hours per month maximum to the work which involves attendance at meetings, background research and report preparation. The next review is scheduled to start shortly. The appointment is undertaken on a voluntary basis with the remuneration arrangements consisting of a meeting allowance of £50 per meeting attended, plus travelling expenses.

If you are interested in finding out more or would like an informal chat, please contact either Liz Fletcher (01903 737610) or Jane Fulton (01903 737611) and if possible by 24 August 2018.



## Appendix B

### Background

Arun District Council is required to appoint an Independent Panel to review its Members Allowances Scheme to comply with the Local Authorities (Members' Allowances) (England) Regulations 2003. The Council is currently looking to recruit at least three members to join its existing Panel of two members.

The Panel is also required to consider the Allowances Scheme for Parish and Town Councillors. The Panel can decide to do this as part of the District Council review or undertake a separate review.

### Skills we are looking for

The skills that would be useful for a candidate to have are:

- an understanding of the public sector, particularly local government
- experience of working within the District
- some knowledge of pay and allowances within other organisations
- an ability to undertake research and compile reports
- communication and presentation skills
- the ability to act independently
- the ability to work positively with Members and openly scrutinise and challenge
- the ability to manage the commitment and workload involved

### Workload

The Panel's review generally takes about 4 to 5 months – this allows time to undertake research in the early stages of the review and then to present the report to the Council through its decision making process.

Panel members would be required to commit between 5 to 10 hours per month to the work which will involve attendance at meetings, background research, interviews with Councillors and relevant officers; and report preparation. The current review is currently on hold due to the resignation of one of the Panel members but it is hoped that following recruitment the review can recommence and be concluded in early 2019.

Generally a review is held every year with some reviews being very full and involving slightly more work for Panel members, whilst others focus on just a few issues. The scope of the review is defined by Councillors, through the Audit & Governance Committee, and is dependent on changes in the roles and responsibility of Members.

The Audit & Governance Committee, made up of 10 Councillors, is responsible for directing the Panel on the issues to be covered in the review; receiving the final report from the Panel; and making recommendations to the Full Council on any changes to be made to the Members Allowances Scheme. It is the Full Council that must agree any changes based on the Independent Panel's report. The review process sometimes includes holding a Seminar for Councillors when the Panel will present its initial findings from the review and the draft report on an informal basis to allow time for any further issues or concerns to be raised. Panel members are invited to attend the meetings of the Audit & Governance Committee, the Full Council and the Seminar held during the review process. A timetable

## Appendix B

would be agreed for the review so there would be plenty of notice of the likely commitment. There would always be one of the officer team present at these meetings and the seminar to support the Panel.

The Panel may also decide to meet as a group throughout the review process to discuss progress and share information.

### **Support and Training to Panel Members**

Officer support to the Panel comes from Liz Fatcher, Group Head of Council Advice & Monitoring Officer and Jane Fulton, Committee Services Manager. Their role is to assist with research; provide background information on the issues raised by Members and other officers; offer guidance and support throughout the review process; liaise with the Councillors on the Panel's behalf; and organise any meetings that the Panel might request.

There are training courses and seminars available to explain the review process and the issues that need to be considered. The University of Birmingham in particular provides a valuable training session along with South East Employers which Panel members are able to attend if they wish.

New members to the Panel would be invited to an introductory session with the officer team to explain the background to the current Members Allowances Scheme and the process for a review. Ongoing support and guidance would then be provided by the officer team.

### **Terms of Appointment**

The appointment is undertaken on a voluntary basis with the current remuneration arrangements being a meeting allowance of £50 per meeting attended and travelling expenses on the basis of Members' rates – currently 45p per mile. This level of allowance forms part of the Members Allowances Scheme and is payable to any independent member.

A claim form will need to be completed on a monthly basis and payment will be direct to a bank/building society account. The appointment is terminable by two month's notice on either side.

Candidates cannot be Elected Members of any local authority (including parish councils) and it is advised that they should not be connected to any political party.

The appointment process involves an interview with Nigel Lynn, the Chief Executive, a representative from the officer team and two Members of the Audit & Governance Committee. The appointment is subject to consultation with the Council's three Political Group Leaders and the Chairman of the Audit & Governance Committee.

**Appendix B**

*For more information contact:*

Liz Fatcher, Group Head of Council Advice & Monitoring Officer  
Tel: 01903 737610  
Email: [liz.fatcher@arun.gov.uk](mailto:liz.fatcher@arun.gov.uk)

Jane Fulton, Committee Services Manager  
Tel: 01903 737611  
Email: [jane.fulton@arun.gov.uk](mailto:jane.fulton@arun.gov.uk)

*To view the latest reports of the Independent Panel, visit the Council's website on the following link:*

<http://www.arun.gov.uk/main.cfm?type=MEMBERSALLOWANCES>



Arun District Council  
Civic Centre  
Maltravers Road  
Littlehampton  
West Sussex  
BN17 5LF

Tel: 01903 737500

Fax: 01903 737747

DX:

Minicom:



e-mail:

3 April 2018

Please ask for:  
Stephen Pearse  
Corporate Support  
37561

Mr Kevin Suter  
Associate Partner, Ernst & Young LLP,  
Wessex House,  
19 Threefield Lane,  
Southampton,  
Hampshire,  
SO14 3QB

Dear Mr Suter,

Thank you for your letter dated 28<sup>th</sup> February 2018 regarding the International Standards on Auditing (ISAs) requirement that those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

Please see below the response to your queries on behalf of the Audit & Governance Committee:

***(1) How does the Audit & Governance Committee, as 'those charged with governance' at the Council, exercise oversight of management's processes in relation to:***

- *undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud or error (including the nature, extent and frequency of these assessments):*

Key financial systems are subject to review by the Internal Audit team. A summary of key findings from audits performed is reported to and considered by the Committee, generally on a quarterly basis. Part of these reviews entails confirming that internal controls exist and are operating effectively. Risk of fraud is also considered, where appropriate. Management also undertake regular independent reconciliations and budgetary monitoring to minimise the risk of, and increase the likelihood of detecting, fraud.

The Committee also receives a presentation on the Council's Accounts on an annual basis, together with the external auditor's report, and considers the actions to be taken in respect of any issues identified. These items are then included in the forward work plan.

- *identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or*

*classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist:*

The Committee is kept up to date on risks associated with fraud that are relevant to the Council. This will be from external advisory documents circulated to members (e.g. from CIPFA) and from reports / updates provided by Internal Audit or other management.

The Committee receives and considers an annual Counter-Fraud Report (summarising the work performed by the Council in relation to fraud during the year) and also the results of any specific fraud-related audit work. These reports include consideration of the key risk areas appropriate to the Council, as advised by external bodies (e.g. the Cabinet Office, CIPFA, etc.), such as housing tenancy, Council Tax discounts and procurement. The Committee is aware that there is ongoing audit work to monitor activity in these areas and specific future work will be agreed by the Committee when considering the Annual Internal Audit Plan.

The Council operates a Whistleblowing Policy and complies with the Public Interest Disclosure legislation, although this covers a wider area than merely fraud. The Policy was updated, reviewed by the Committee and adopted by Full Council in October 2013. Details are published on the Council's website, for staff, contractors and members of the public.

The Council maintains a "hotline" to Internal Audit to enable staff and / or members of the public to report suspected fraud, or other concerns. Separate arrangements are in place within Revenues & Benefits for the reporting and investigation of suspected benefits fraud cases (although responsibility for benefits fraud has now passed to the DWP's Single Fraud Investigation Service).

The Council's Anti-Fraud, Corruption & Bribery Policy was updated in 2012 to include the provisions of the Bribery Act 2010. In view of its importance, the adoption of the revised Policy was communicated to all Council staff and Members, and the document is posted on the Council's website. Further updates were presented to the Committee, prior to its adoption by Full Council in October 2013.

The Council takes part in the National Fraud Initiative (NFI) exercise now managed by the Cabinet Office.

As part of the Government's transparency requirements, details of payments over £500 made to suppliers and other external bodies are published on the Council's web site. From February 2015, the publication requirements were extended and some additional information relating to e.g. counter-fraud and procurement is also now published.

The attention of the Committee is directed to reports containing the results of appropriate national fraud surveys (now undertaken by CIPFA).

- *communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council's codes of conduct):*

All staff are required to comply with the Officer Code of Conduct, raised as part of their recruitment / induction process. Staff are also required to complete a register of interests form on a periodic basis and to complete gifts and hospitality register forms, as necessary. Internal (and external) Audit undertake periodic reviews of these arrangements.

Members are also required to comply with a Code of Conduct and make a declaration of interests. These arrangements were emphasised as part of the 'induction' process for all Members following the District Council elections in May 2015 and are overseen by the Council's Standards Committee. Member allowances and compliance with 'related party transaction' disclosure requirements are considered by external audit as part of their annual audit work. All Members were required to undertake appropriate training following the May 2015 District elections and Members elected later, as part of their induction processes.

As noted above, important communications (e.g. the Bribery Act) will be circulated to all staff / Members and posted on the Council's internet and intranet sites.

The Council's published Constitution contains details of the Officer Scheme of Delegation and Financial Rules / Standing Orders. (The Constitution is currently subject to review by the Monitoring Officer and the Constitution Working Party to ensure that it is up-to-date, relevant and reflects the Council's current priorities and management structure, with changes being agreed by the Members' Constitution Working Party and approved by Full Council). It should be noted that both the Chairman and Vice Chairman of the Audit & Governance Committee serve on the Constitution Working Party.

- *encouraging employees to report their concerns about fraud:*

As noted above, the Council has a published Whistleblowing Policy. The updated version was circulated to all staff in 2013 and a copy is provided to new joiners. This advises of the various mechanisms available for any concerns about fraud to be raised, with arrangements in place to handle cases where staff do not feel able to refer it to their line management.

- *communicating to you the processes for identifying and responding to fraud or error:*

Any fraud (other than benefits and housing tenancy fraud) is investigated by Internal Audit and reported to the Audit & Governance Committee as part of the regular quarterly meetings, as well as to appropriate senior management. If a fraud was considered to be significant, the Chief Internal Auditor may request that a special meeting of the Committee be convened, purely to discuss the fraud. These responsibilities are contained in the Internal Audit Charter and the Fraud Response Plan, approved by the Audit & Governance Committee.

In 2016 the Council commenced pilot project with the creation of a dedicated Housing Tenancy Investigator post. The Committee has previously acknowledged the importance to the Council of potential housing tenancy fraud and expressed its support for the pilot. The pilot has proved successful and the Housing Fraud Investigator post has now been made permanent by the Council in 2017. Presentations have been made by the Investigator / Cabinet Member for Housing to Members and a number of properties have been recovered for re-use by the Council (an update on its progress will be provided to the July meeting of the Audit & Governance Committee as part of the annual Counter-Fraud Report).

**(2) How does the Audit & Governance Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control:**



The Audit & Governance Committee has responsibility for the counter-fraud culture within the Council (as assigned within the Constitution). It meets on a regular scheduled basis, although there is provision within its terms of reference to meet more frequently should it be deemed necessary. On an annual basis, the Committee approves the Annual Internal Audit Plan, which is risk-based and includes consideration of potential fraud risk areas. Relevant information is provided to the Committee on the potential fraud areas in Local Authorities and they will ensure that such risks (and any specific concerns) are considered by Internal Audit for inclusion in the Annual Plan.

At these meetings the Committee receives periodic reports from the Chief Internal Auditor in respect of key findings from the audit reviews. These reports provide a summary of the audit findings, any recommendations made to improve the internal control environment and management's response to the report findings / recommendations, which are subject to discussion by the Committee. If the Committee feels that findings are highly significant and / or the response is inadequate, they have the authority to call the manager before them to explain their actions. If after this stage the Committee is still not satisfied, the matter may be escalated by requiring the Director and / or the Cabinet Member with portfolio responsibility for the Service area, to attend the Committee to answer questions.

The Committee is also advised of any serious breaches of the Authority's Financial Standing Orders and the action taken in response to the breach.

Within the parameters under which the Audit & Governance Committee operates it has the power / authority to initiate investigations (e.g. by means of working parties) and call Officers to attend the Committee.

The Committee also has oversight responsibility for the Council's Governance & Risk Group and, from which, updates are provided to the Committee. This Officer group has responsibility for preparing and approving the Council's Annual Governance Statement (which is presented to the Committee and published with the annual Accounts) and for the review and update of the Council's:-

- Risk Management Policy Statement & Strategy
- Strategic Risk Register
- Operational Risk Registers.

The Risk Management Policy Statement & Strategy and Strategic Risk Register were reviewed, updated and presented to the Committee in December 2017.

**(3) Is the Committee aware of any:**

- **breaches of, or deficiencies in, internal control; and**
- **actual, suspected or alleged frauds during 2017/18:**

Apart from the items raised as part of Internal Audit reviews and / or other reports presented, the Committee is unaware of any breaches of internal control in 2017/18. Although there is ongoing fraud-related work, there are currently no investigations into actual, suspected or alleged frauds advised as being progressed by Internal Audit.

The Committee is aware that there will have been ongoing investigations / legal action in respect of benefits overpayments (where the Council's involvement started prior to December 2015, as such cases are now the responsibility of the DWP SFIS) and also a number of cases involving housing tenancy issues. An annual summary of the number of cases is included in the annual Counter Fraud Report presented to the Committee.

***(4) Is the Committee aware of any organisational or management pressure to meet financial or operating targets:***

The Council regularly considers its priorities / Corporate Plan and Budget / Financial Prospects and reports are presented to senior management and Members.

While there will be significant organisational / management pressures in the current economic climate, the Committee is not aware of any that are 'inappropriate'. Should any such occurrences be identified by, or advised to, the Committee they would be referred for investigation.

All Members have received a number of briefings on the progress of the Council's '2020 Vision – Working together for a better future'. As part of this, the Council has given consideration to the provision of essential services in the future and requirements for maximising income / substantially reducing costs going forwards, including the potential for sharing services with other local authorities, outsourcing, etc. This work is drawing to its conclusion, with decisions taken in 2017 on the way forward, and the inevitable increase in management pressure will be kept in view.

***(5) How does the Audit & Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2017/18:***

As advised in previous years, the Committee has discussed this issue and is of the conclusion that it would not be possible to provide a categorical assurance to the above. Rather, based on its own knowledge of the Authority's activities, supported by the reports received by the various committees of the Authority (in particular the Audit & Governance Committee and the Standards Committee), it is felt more appropriate to state "to the best of our knowledge and belief, all relevant laws and regulations are being complied with."

The Council's Monitoring Officer and / or representatives of Legal Services attend Full Council and appropriate Committee meetings to ensure that the Council acts in an appropriate and legal manner.

***(6) Is the Audit & Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements:***

The Committee is currently unaware of any litigation or claims that would specifically affect the financial statements (but understand a separate management response is to be provided by the Group Head of Corporate Support, in consultation with the Legal Services Manager, covering this). However, Members are aware that there will always be ongoing litigation and claims within the Council e.g. involving Planning appeals and the potential impact on amounts collected by the Council in respect of business rate (NDR) valuations appealed via the Valuation Office Agency (VOA). Some members of the Audit & Governance Committee also sit on other Council committees, or are part of the Member Working Groups, and will thus be aware of these cases. As part of the presentation / approval of the Annual Accounts, Finance staff provide explanations as to provisions, one-off charges / receipts, etc. that are relevant.

***(7) How does the Audit & Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements:***



On an annual basis, the Audit & Governance Committee is provided with a detailed walkthrough of the Accounts by the Financial Services Manager. The Committee also receives a report to provide its 'Approval of the Accounting Policies' and resolved in February 2018 that these were valid and could be applied to the Statement of Accounts for 2017/18.

The Council maintains significant reserves and has, in the past, been debt-free. However, as at 28 March 2012, the Council was required to borrow a substantial sum (£70.9M) in respect of the Government changes to the Housing Revenue Account (HRA) regime. This debt is being financed at special rates with staged repayment and is ring-fenced, so the general fund is unaffected. Requirements and options for the borrowing were advised by appropriate Officers / external consultants to the Audit & Governance Committee and to Full Council, who approved the borrowing and the necessary changes to the Council's Treasury Management Strategy.

This borrowing was a Government requirement, applied to all affected Councils and was supported by an Housing Revenue Account (HAR) Business Plan. The Committee is aware that there will now be a significant negative impact on the HRA in future years caused by among other things:-

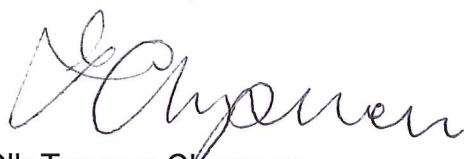
- Government changes in 2015 to the social rent regime (resulting in a 4-year period of reduced rents, reversing the previously forecast annual rent increases)
- Council decisions in respect of its local program for the building / acquisition of properties for social housing.

There are still a number of anticipated changes from central Government that will affect the HRA (albeit that this remains ring-fenced from the General Fund) and an updated HRA Business Plan was approved by Full Council in September 2017.

The Committee is also aware that there may be a need for further future borrowing by the Council (e.g. in respect of future Bognor Regis regeneration requirements). This situation will be monitored to ensure that the risks are known by Members prior to approval by Full Council.

As such, it remains the understanding of the Committee that the future 'going concern assumption' of the Council is not affected. The Committee will continue to receive updates and reports on treasury management activity and will have an ongoing oversight of the Council's 'going concern' position.

Yours sincerely



Cllr Terence Chapman,  
Audit & Governance Committee Chairman



Ernst & Young LLP Tel: + 44 2380 382 100  
 Wessex House Fax: + 44 2380 382 001  
 19 Threefield Lane ey.com  
 Southampton  
 SO14 3QB

Nigel Lynn  
 Chief Executive  
 Arun District Council  
 Arun Civic Centre  
 Maltravers Road  
 Littlehampton  
 West Sussex  
 BN17 5LF

25 April 2018

Ref: ADC/18-19/Fee Letter

Direct line: 023 8038 2159

Email: KSuter@uk.ey.com

Dear Nigel

## Annual Audit 2018/19

We are writing to confirm the audit that we propose to undertake for the 2018/19 financial year at Arun District Council.

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 apply for principal local government and police bodies. These audited bodies are responsible for making their own arrangements for the audit of the accounts and certification of the housing benefit subsidy claim. Public Sector Audit Appointments Ltd (PSAA) has appointed auditors for bodies that have opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23. Appointments for all bodies that had opted into the appointing person scheme before 9 March 2017 were confirmed, following consultation, in December 2017.

### Indicative audit fee

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that have opted into its national auditor appointment scheme. Following consultation on its Work Programme and Scale of Fees, PSAA has reduced the 2018/19 scale audit fee for all opted-in bodies by 23 per cent from the fees applicable for 2017/18.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For Arun District Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2017/18, our audit planning process for 2018/19 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

### Summary of fees

	Indicative fee 2018/19 £	Planned fee 2017/18 £	Actual fee 2016/17 £
Total Code audit fee	43,969	57,103	57,103
Certification of housing benefit subsidy claim	N/a	8,330	8,204
<b>Total</b>	<b>43,969</b>	<b>65,433</b>	<b>65,307</b>

The appointment of an auditor to certify the Council's 2018/19 housing benefit subsidy claim is not covered by the PSAA appointment, hence is shown as not applicable here.

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

### Billing

The indicative audit fee will be billed in 4 quarterly instalments of £10,992.



### **Audit plan**

Our plan is expected to be issued in January 2019. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Group Head of Corporate Support and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Governance Committee.

We are committed to providing you with a high quality service. 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, please contact me as your Engagement Lead. 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.

Yours sincerely

A handwritten signature in blue ink that reads 'Kevin Suter'.

Kevin Suter  
Associate Partner  
For and on behalf of Ernst & Young LLP

cc. Alan Peach, Group Head of Corporate Support  
Councillor Chapman, Chair of the Audit and Governance Committee

AGENDA ITEM NO. 10ARUN DISTRICT COUNCILAUDIT AND GOVERNANCE COMMITTEE – 26 JULY 2018

## Recommendation Paper

Subject : Annual Statement of Accounts 2017/18 and Letter of Representation

Report by : Carolin Martlew, Financial Services Manager

Report date : 9<sup>th</sup> July 2018

EXECUTIVE SUMMARY

This report provides information about the audit of the Council's 2017/18 Statement of Accounts (accounts) and recommends the approval of the 2017/18 accounts and the Letter of Representation on behalf of the Council.

RECOMMENDATIONS

The Committee is requested to:

- i. Note the amendment to the Council's Accounting Policies;
- ii. Note the findings of the EY Audit Results Report (previous item on the agenda);
- iii. Approve the Letter of Representation on behalf of the Council;
- iv. Approve the Statement of Accounts for the financial year ended 31 March 2018 which will be signed by the Chairman of the Committee (Appendix 1 as amended).

1.0 INTRODUCTION

- 1.1 Due to the late scheduling of the audit (starting 9<sup>th</sup> July 2018) it is not possible to provide a written report on the results of the audit in time for the main Agenda for the committee meeting on 26<sup>th</sup> July 2018. The unaudited Draft Statement of Accounts

2017/18 (issued by the Group Head of Corporate Support on 31<sup>st</sup> May 2018) have therefore been included as appendix 1.

- 1.2 At the time of writing an issue related to the Pension Report provided by the Actuaries, Hyman Roberts, has been brought to the attention of management which is marginally below the materiality threshold above which the Accounts will require alteration.
- 1.3 The committee will be updated verbally at the meeting with any significant changes to the Accounts.
- 1.4 The public inspection period has commenced and is due to finish on 12<sup>th</sup> July 2018. At this time we are not aware of any objections raised with EY.
- 1.5 This report will be preceded by the Audit Results Report issued by EY (which will also be circulated under separate cover).
- 1.6 The audited accounts, together with the auditor's opinion, are required to be published by 31<sup>st</sup> July 2018.
- 1.7 The Letter of Representation will be circulated under separate cover prior to the meeting of the committee.

## 2.0 ACCOUNTING POLICIES

- 2.1 The Accounting policies to be applied to the 2017/18 Accounts were approved by this committee on 22<sup>nd</sup> February 2018. The policies approved have subsequently been updated to include the depreciation policy for HRA dwellings agreed by the Asset Management Group. The detail is contained in appendix 2.

## 3.0 OVERVIEW OF THE FINANCIAL STATEMENTS

- 3.1 The Statement of Accounts summarises the Council's financial transactions for the 2017/18 year and its position at 31 March 2018 and is comprised of the: Narrative Report; Statement of Responsibilities; Core Financial Statements; Notes to the Accounts (including Accounting Policies); Supplementary Statements; and Auditor's opinion.
- 3.2 The meeting will focus on the core financial statements and the Supplementary financial Statements. The core financial statements are comprised of the:
  - Comprehensive Income and Expenditure Statement

- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement

3.3 The Supplementary Financial Statements are comprised of the:

- Housing Revenue Account and notes ; and
- Collection Fund Statement and notes.

#### 4.0 AUDIT OF THE STATEMENT OF ACCOUNTS

4.1 The Committee will be updated at the meeting in relation to the key issues identified by the audit.

4.2 Members are requested to note the content of the Audit Results Report (previous item on the agenda).

4.3 Members are requested to approve the Letter of Representation (to be circulated separately to this report once available).

#### 5.0 CONCLUSION

5.1 The Statement of Accounts for the financial year ended 31 March 2018 have been prepared in compliance with the required standards and statute and should be approved and signed by the Chairman of the Committee.

**Background Papers:** none

**Contact:** Carolin Martlew, Financial Services Manager ext. 37568  
carolin.martlew@arun.gov.uk



# **Arun District Council**

## **Annual Statement of Accounts for the year 2017/18**

Arun District Council  
Group Head of Corporate Support  
Arun Civic Centre  
Maltravers Road  
Littlehampton  
West Sussex  
BN17 5LF  
01903 737568



## Contents

Narrative Report .....	1
Statement of Responsibilities .....	15
Expenditure and Funding Analysis .....	16
Comprehensive Income and Expenditure Statement .....	17
Movement in Reserves Statement .....	18
Balance Sheet .....	20
Cash Flow Statement.....	22
Note 1 - Accounting Policies .....	23
Note 2 - Accounting Standards Issued, Not Adopted.....	40
Note 3 - Critical Judgements in Applying Accounting Policies.....	41
Note 4 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty.....	43
Note 5 - Material Items of Income and Expense.....	45
Note 6 - Events After the Balance Sheet Date.....	45
Note 7 - Note to the Expenditure and Funding Analysis.....	46
Note 8 - Expenditure and Income Analysed by Nature .....	49
Note 9 - Adjustments between Accounting Basis and Funding Basis under Regulations .....	50
Note 10 - Transfers to/from Earmarked Reserves.....	54
Note 11 - Other Operating Expenditure.....	55
Note 12 - Financing and Investment Income and Expenditure.....	55
Note 13 - Taxation and Non-Specific Grant Income .....	55
Note 14 - Property, Plant and Equipment .....	56
Note 15 - Investment Properties .....	62
Note 16 - Intangible Assets .....	64
Note 17 - Financial Instruments.....	65
Note 18 - Debtors .....	70
Note 19 - Cash and Cash Equivalents .....	70
Note 20 - Assets Held for Sale .....	70
Note 21 - Creditors .....	71
Note 21A - Long Term Creditors.....	71
Note 22 - Provisions .....	72
Note 23 - Usable Reserves .....	73
Note 24 - Unusable Reserves.....	73
Note 25 - Cash Flow from Operating Activities .....	78
Note 26 - Cash Flow from Investing Activities.....	79
Note 27 - Cash Flow from Financing Activities.....	79
Note 28 - Agency Services .....	80
Note 29 - Members' Allowances .....	80
Note 30 - Officers' Remuneration .....	81
Note 31 - External Audit Costs.....	85
Note 32 - Grant Income.....	85
Note 33 - Related Parties .....	87
Note 34 - Capital Expenditure and Capital Financing.....	88
Note 35 - Leases.....	89
Note 36 - Impairment Losses .....	91
Note 37 - Termination Benefits .....	91
Note 38 - Defined Benefit Pension Scheme.....	92
Note 39 - Contingent Liabilities.....	99

Housing Revenue Account Income and Expenditure Statement .....	100
Movement on the HRA Statement .....	101
HRA Property, Plant and Equipment.....	102
HRA Intangible Assets .....	104
HRA Assets Held for Sale .....	104
Notes to the HRA Account .....	105
Collection Fund .....	107
Notes to the Collection Fund.....	109
Glossary .....	110

## Narrative Report

### Introduction to the Arun district

Arun District is the largest district in West Sussex in terms of population (156,997 mid-year 2016), with a Council Tax Base of 59,456 equivalent Band D properties. It includes the towns of Arundel, Bognor Regis and Littlehampton together with 28 surrounding parishes.

There are 54 councillors representing 23 wards within the District. The councillors are elected on a 4 year term, with the next elections to be held in May 2019. The Council is currently made up of councillors from the following political parties: Conservatives 43; Liberal Democrats 7; Independent 2; Labour 1; and UKIP 1.

Arun has one of the UK's highest populations of elderly people, with 27% of residents aged 65 and over, compared to 17% nationally. Particularly high proportions of elderly people are living along the coast, in the Pagham Aldwick area west of Bognor Regis, and from Rustington to Ferring, where in some wards over 50% of residents are aged 65 and over. By contrast, parts of Bognor Regis and Littlehampton have a significantly younger population, with above average proportions of families and young people. Both national and local forecasts indicate that the largest growth in the future will be in people aged 85 and over.

### Key Information about the Council

#### Decision Making

##### The Council

The overall objectives, major policies and the financial strategy are decided at Full Council, which is also the principal forum for major political debate.

##### The Cabinet

The Cabinet comprises seven Councillors, all representing the majority party of the council. The Cabinet takes key decisions on Council policy and sets much of the strategy on how Council services will be delivered.

##### Overview Select Committee

The Overview Select Committee undertakes the scrutiny function of the Council and is made up of 15 members (pro rata to the political parties' representation). The committee makes recommendations to Cabinet based on its findings

##### Audit and Governance Committee

The Audit and Governance Committee provides assurance of the adequacy of the corporate governance arrangements, the risk management framework and the associated control environment; scrutiny of the authority's financial and non- financial performance; and to oversee the financial reporting process.

**The Annual Governance Statement** is published alongside the Statement of Accounts and is available on the Council's website.

#### Workforce

Arun employs approximately 380 staff in full-time and part time positions. The Council's workforce has undergone a planned reduction as part of its 2020: Vision Programme to make it smaller and more efficient. The establishment budget reduced from £14.9m in 2017/18 to

£14.5m in 2018/19 (392 and 376 full time equivalent staff respectively). The Council pays an apprenticeship levy at 0.5% of the total pay bill. This money can be used to fund approved training. The Council employs 2 apprentices and is planning to increase this number to offer opportunities for training and to address skills shortages in the future.

## **The Strategic Direction of the Council**

The Council's 2020 Vision programme (working together for a better future) has been established to provide strategic direction to help the Council become more effective and sustainable and to enable it to meet future demands that are placed upon it. The Council is facing a challenging financial climate (see Economic Climate below) and changing customer expectations. The Council's aim is to strengthen relationships with local organisations and communities offering more digital opportunities to make interaction with the Council less complicated. The strands of the Vision programme are:

- Offering a better customer experience
- Strengthening external relationships
- Providing more digital online services
- Becoming smaller and more effective

## **The Council's Performance**

The Council's strategic performance indicators are set in the Corporate Plan. The Council's three priority areas (2017/2021) are:

- Your Council Services;
- Supporting you if you need help; and
- Your future.

Cabinet is updated on performance twice a year. The full outturn report of the Council's performance will be considered at the Overview Select Committee meeting on 10 July 2018.

- For 2017/18 44% of Corporate Plan Indicators achieved target (39% previous year).
- Overall satisfaction with the cleanliness of the district is 68% (73% previous year)
- Residents Satisfaction with the cleanliness of the district is 64% (72% previous year).
- Council Tax Collection was 98.01% (98.25% previous year). The total collected increased by £5.6m to £97.5m (£91.9m previous year).

## **The Local Plan**

The Objectively Assessed Housing Need (OAN) for the District has increased several times in recent years. In 2016, as part of the Local Plan Examination, the then examining Inspector concluded it should be 845 homes per annum. However, new data released later in 2016 meant that the Council reviewed again the OAN using the Inspector's methodology. The revised figure was 919. The Council has also made some provision to the housing needs of surrounding Districts and Boroughs under the duty to co-operate. Thus, the Local Plan is intending to provide an average of 1000 homes per annum between 2011 and 2031. Since there is a reliance on large strategic sites to deliver this scale of housing the Plan's trajectory is 'stepped' to reflect the time it will take to secure delivery on some sites. The Council is awaiting the current Inspector's written report. Subject to there being no requirement to make further modifications, the intention is to ask Full Council to adopt the Local Plan in July 2018.

## Financial Performance

### Economic Climate

The impact of the economic climate is difficult to assess as there are a number of variables which will affect the Council and we are currently in an unprecedented period of low interest rates.

The financial impact of Brexit is uncertain, however, it is likely to affect interest rates, the rate of inflation, the labour market, property and rental values.

The Council's General Fund expenditure is supported by Government through the Business Rate Retention scheme, the Revenue Support Grant (RSG) and the New Homes Bonus (NHB). There has been a continual sharp decline in the level of Central Government support due to the government's austerity measures but the council has benefited from the New Homes Bonus and the new Business Rate Retention scheme due to growth in both the domestic and commercial sectors.

The Business Rates Retention scheme has transferred a considerable risk to the council by linking government support directly to the local economy. It is also important to note any significant negative changes in the value of the ratings list will directly reduce the level of funding received in future, such as valuation appeals which can be backdated. Business Rates revaluation took effect from 1 April 2017. This has resulted in a significant increase in total rateable value but a reduction in the rating multipliers producing a broadly fiscally neutral position.

The Government is planning to phase out non-specific grant funding by allowing local authorities to retain a higher proportion of business rates collected locally. The reset of the retained business rates baseline is proposed in 2020/21. This could effectively wipe out all or a proportion of the past gains through growth built up since the inception of the scheme. There are no further details currently available and the situation will continue to be monitored closely due to the likely significant adverse impact on the Council's funding.

The Council received £3.677m in New Homes Bonus in 2017/18 (£4.014m previous year) and this will further decrease to £2.733m for 2018/19. The grant was reduced from 6 years to 5 years for 2017/18 and will only be paid for 4 from 2018/19. The level of NHB is summarised in the table below:

NHB Payment relating to:	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2011/12	509	509	509	509	509	509	0	0
2012/13		556	556	556	556	556	0	0
2013/14			1,000	1,000	1,000	1,000	1,000	0
2014/15				484	484	484	484	0
2015/16					539	539	539	539
2016/17						926	926	926
2017/18							728	728
2018/19								540
<b>Total</b>	<b>509</b>	<b>1,065</b>	<b>2,065</b>	<b>2,549</b>	<b>3,088</b>	<b>4,014</b>	<b>3,677</b>	2,733

The Council has had significant benefits from the New Homes Bonus, however, the new scheme has resulted in a significant overall reduction in funding and is dependent on the level of growth continuing. NHB awarded should be considered in light of significant reductions in other sources of external funding, notably RSG.

The level of RSG was £750k in 2017/18 (£1.666m previous year) and has reduced further to £194k in 2018/19. This trend of steeply declining RSG continues until no grant is received in 2019/20 when the contribution becomes negative in the form of a £430k tariff adjustment. The effect of negative RSG is currently under review by the MHCLG (Ministry for Housing Communities and Local Government).

Council Tax Income – Arun excluding Parish Councils is summarised in the table below:

Actual 2016/17	Arun excluding Parish Councils	Actual 2017/18	Budget 2018/19
57,803	Tax base *	59,456	60,402
£166.32	Band D Tax	£171.27	£176.40
£9,614,000	Council Tax Income (excluding parishes)	£10,183,000	£10,655,000

The Council Tax for 2017/18 is based on an Arun Band D of £171.27, which represents an increase of £4.95 or 2.98% (£166.32 for 2016/17). Arun's tax base has increased significantly in 2017/18 (from 57,803 to 59,456), with a further increase of 946 (from 59,456 to 60,402) for 2018/19. The projected increase is mainly due to the completion of new dwellings in the District.

The government's calculation of the Council's spending power is based on a 3% increase in band D Council Tax. The Councils Medium Term Financial Plan assumes annual £5 increases in the Council tax over the next 5 years in order to become more self-sufficient whilst still remaining a low Council Tax Authority.

The income from fees and charges (principally from Planning and car parking) has remained constant at around £4.2m (£4.3m previous year). The importance of property related income is increasing for the Council in order to raise additional revenue funding. The Council purchased Bognor Regis Arcade in 2017 in line with this objective.

As referred to above the low interest environment has persisted. However, proactive investment of cash balances has generated £0.696m in interest this year.

The Council has a General Fund revenue balance of £9.344m (£8.242m previous year) an increase of £1.102m, which is adequate to withstand immediate financial pressures but is inevitably a finite resource and will be monitored carefully. There are several major risks and uncertainties associated with the volatility in the council's funding, which means that the maintenance of a reasonably high level of balances is essential.

The Council has Net Assets of £257.565m (£226.634m at 31 March 2017) and maintains a strong balance sheet despite financial challenges:

Non-Current Assets (Property & Investments) £298.089m	➔	Net Assets 31 March 2018 £257.565m
Net Current Assets (Debtors, Creditors & Cash) £43.029m	➔	
Long Term Liabilities (Pensions, Borrowing & Provisions) (£83.553m)	➔	
Funded by: Usable Reserves £40.725m	➔	
Funded by: Unusable Reserves £216.841m	➔	

Non-Current Assets (Property & Investments) £275.055m	➔	Net Assets 31 March 2017 £226.634m
Net Current Assets (Debtors, Creditors & Cash) £35.556m	➔	
Long Term Liabilities (Pensions, Borrowing & Provisions) (£83.977m)	➔	
Funded by: Usable Reserves £44.725m	➔	
Funded by: Unusable Reserves £181.909m	➔	

### West Sussex Business Rate Pool

The Council is a member of the West Sussex Business Pool. The other members are: Adur District Council; Worthing Borough Council; Chichester District Council; and West Sussex County Council (lead authority). The business rate pool commenced in 2015/16 and will continue for 2018/19. The aim of the Business Rates pool is to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area. The benefit from pooling is for the whole of the county.

## Financial Management

The 2017/18 budget was considered by the Overview Select Committee on 24 January 2017 and cabinet on 6 February 2017 before being formally approved by Full Council on 22 February 2017. The budget took account of the Council's Medium Term Financial Strategy and Housing Revenue Account business plan. The Local Government Finance settlement issued by the Ministry for Housing, Communities and Local Government (MHCLG) in February 2017 was also taken into consideration.

The statutory ringfence of the Housing Revenue Account (HRA) requires that the Council sets separate budgets for the HRA and GF. The Code requires that these are aggregated in the Primary performance statements (page 17 to page 22) and the Expenditure and Funding Analysis (page 16). The table below shows the relationship between the cost of service in the Comprehensive Income and Expenditure Statement, the Net cost of service in the expenditure and funding analysis and the outturn for 2017/18 for the GF and HRA (please see page 9 and page 10 for further details on HRA).

The outturn for 2017/18 of £1.102m (surplus) contribution to General Fund Reserve is a favourable variation of £1.116m against original budget (and £1.736m against total approved budget).

### Reconciliation of the outturn position to the Financial Statements 2017-18

	GF	Earmarked	HRA	Combined
	£000	£000	£000	£000
<b>Cost of Service as per Comprehensive Income &amp; Expenditure Statement</b>	<b>21,208</b>	-	<b>(17,751)</b>	<b>3,457</b>
<b>Adjustments between accounting basis &amp; funding under regulations</b>				
Adjustment for Capital Purposes	(3,049)	-	16,518	13,469
Net Change for Pensions Adjustments	(2,799)	-	(236)	(3,035)
<b>Total Adjustments (See Note 7)</b>	<b>(5,848)</b>	-	<b>16,282</b>	<b>10,434</b>
<b>Net Cost of Services in the Expenditure and Funding Analysis</b>	<b>15,360</b>	-	<b>(1,469)</b>	<b>13,891</b>
<b>Other Income and Expenditure (see Expenditure and Funding Analysis)</b>	<b>(20,141)</b>	-	<b>1,832</b>	<b>(18,309)</b>
Transfers to / (from) Earmarked Reserves (See Note 10 - Net Transfers)	3,679	(3,679)	-	-
<b>(Surplus) / Deficit for the year</b>	<b>(1,102)</b>	<b>(3,679)</b>	<b>363</b>	<b>(4,418)</b>

The original budget for 2017/18 anticipated a draw down from General Fund Reserve of £14k. The Council's governance arrangements require significant additional expenditure (not included in the original budget) to be approved by Full Council. During the year additional supplementary estimates totalling £620k were approved resulting in a total approved budgeted draw down from reserves of £634k.



	£'000	£'000
Original Budget		14
Homelessness Bed and Breakfast Payments	230	
Vision 2020 restructuring costs	350	
Planning appeal	40	
Total Supplementary Estimates approved during year		620
<b>Total Approved Budget 2017/18</b>		<b>634</b>

It is important to note that the outturn position is comprised of a significant number of smaller underspends/additional income and additional contributions/expenditure.

**Significant variations (over £100k) are analysed below:**

	£'000
Underspends/Additional Income	
Establishment (above £450k vacancy management target)	(354)
Housing Benefit	(360)
Fees and charges	(226)
Interest and Investment Income	(175)
HRA recharge	(149)
Specific savings on projects applied to Littlehampton Leisure Centre (LLC)	(403)
s106 sums for maintenance in perpetuity	(1,652)
Retained Business Rates	(944)
Other underspends <£100k	(713)
<b>Total</b>	<b>(4,976)</b>
Additional Expenditure/Contributions	
Homelessness/B&B*	274
2020 Vision Restructuring Commitments*	350
Revenue Financing of Bognor Regis Arcade	181
Business Rates Earmarked Reserve	1,000
Additional contribution to LLC scheme	2,055
<b>Total</b>	<b>3,860</b>
<b>Overall Variation against original budget</b>	<b>(1,116)</b>

\* Supplementary Estimates approved by Full Council

The Council's 2020 Vision Programme required the final part of a major restructure/transformation programme. The restructuring of departments, combined with stringent vacancy management resulted in a favourable outturn against budget. In addition a supplementary estimate was approved by Full Council for £350k to fund the restructuring costs associated with the 2020: Vision programme. The additional restructuring were effectively funded from the underspend on the Establishment. The 2020 Vision programme resulted in over a million pounds of budget savings in 2018/19.

The Council received significant s106 sums for maintenance in perpetuity in respect of a number of sites. It should be noted that the receipt of these sums will also lead to the requirement for additional revenue expenditure in respect of maintaining the relevant sites. These sums were not included in the budget for 2017/18 as the timing of the receipts was not certain.

The underspends/additional income during the year enabled an additional revenue contribution to the Littlehampton Leisure Centre capital project which is now fully funded (including a budgeted contribution of £1.5m in 2018/19).

The variation on retained business rates has a number of components. With regard to net business rates income there has been additional growth, and the Council will benefit from this in future years when the Collection Fund surplus is distributed. The extension of small business rate relief and new reliefs granted for 2017/18 (supporting small businesses, local discretionary scheme and Pubs) resulted in a large reduction in net business rate income compensated for by S.31 grant payments.

There are a number of significant risks on the horizon with regard to Business Rates, notably the reset and the increasing volatility of business rate income (e.g. the uncertainty regarding appeals against the 2017 list and the fact that the Council is heavily reliant on a relatively small number of "high ticket" business premises). Having regard to these issues £1m has been added to an earmarked reserve to cover business rate volatility and reset issues.

The purchase of Bognor Regis Arcade incurred £181k revenue costs which cannot be financed through the use of capital receipts.

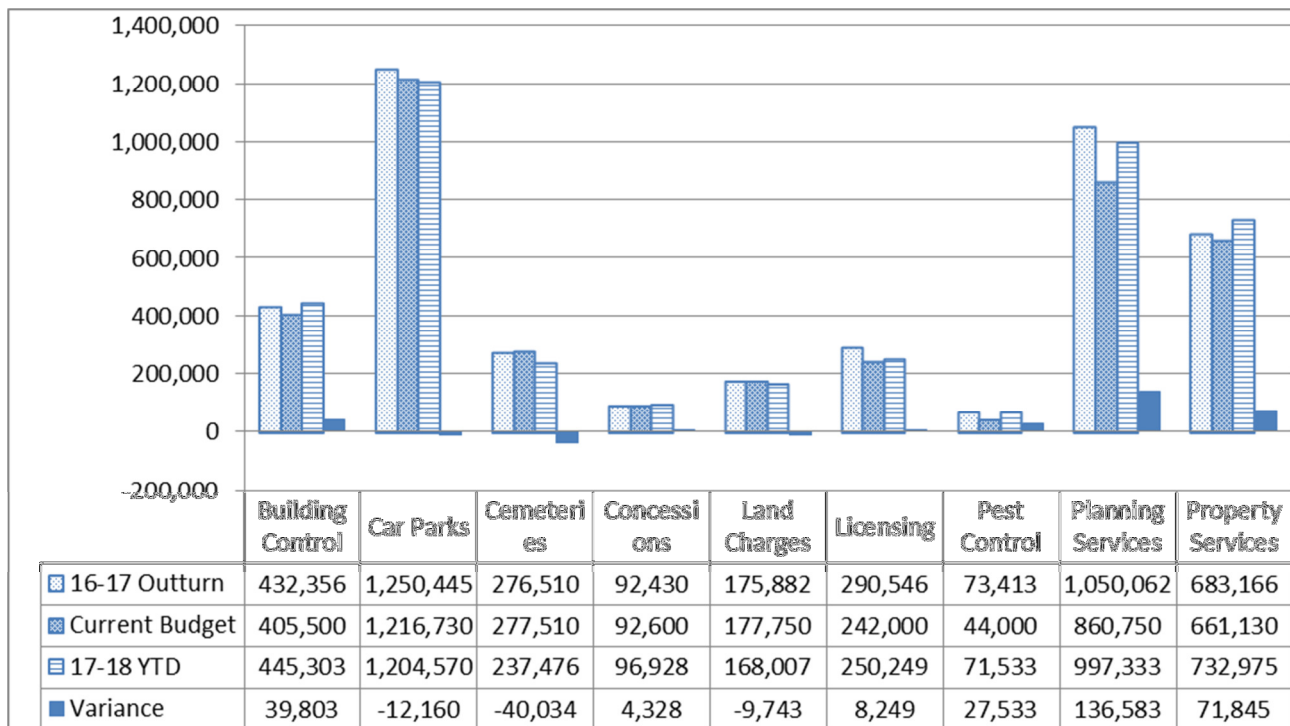
The addition cost for Homelessness (Bed and Breakfast provision) was supported by a £230k supplementary estimate which was approved by Full Council. There continues to be financial and operational pressures on this demand led service. The net budget for Homelessness was increased by £401k for 2018/19.

The increase in General Fund recharge to the Housing Revenue Account for Management and Support services was mainly due to project expenditure that was not capital in nature e.g. works to the offices and, therefore, had to be expensed during the year.

The favourable variation on Housing Benefit was due to a decrease in case load for both Rent Rebates and Rent Allowances in the last quarter of the year.

Service related income from fees, charges and rents are included within net cost of service. In total this amounts to an overall financing of £4.2 million in 2017/18 (£4.3 million previous year). Income is a key risk area to the budget as it is predominantly externally influenced, without direct link to service cost and each source is unique.

The graph below analyses (£226k) favourable outturn income variation by source and value:



### Housing Revenue Account (HRA)

In September 2017 the Council approved the priorities of the new HRA Business Plan. These priorities included:

- The construction or acquisition of 250 new homes over the 10 year life of the plan
- The development of a new Housing Asset Management Strategy
- Establishing and Implementing a 5 year programme of improvements to sheltered schemes
- Maximising income and making the best use of available resources

The Council recognises the need to maintain a clear view on the affordability of the above priorities, and the financial model which supports the Business Plan will be regularly updated in the light of changing circumstances.

With regard to 2017/18 the HRA, including the Major Repairs Reserve, showed a deficit of £0.542m compared with the budgeted deficit of £0.331m. The change is mainly due to net slippage partly offset by savings on both Supervision & Management and Repairs. The HRA balance at 31<sup>st</sup> March 2018 is £7.963m, of which £0.495m is committed for funding slippage of the 2017/18 capital programme. A further £0.145m has been earmarked for funding additional repairs expenditure in 2018/19, leaving an uncommitted balance of £7.323m. This balance is expected to reduce over the first few years of the new Business Plan as a result of the programme of new dwellings and additional expenditure on sheltered housing.

The relationship between the HRA and the CIES and EAFA is analysed on page 6. The deficit of £0.542m referred to above comprises £0.363m deficit on the HRA and £0.179m deficit on the Major Repairs Reserve.

## Capital Spending and Finance

A budget of £19.5m for capital and special revenue projects was approved by the Council for 2017/18. In addition £10.5m was carried forward from 2016/17 due to project slippage. Actual expenditure for the year amounted to £16.8m (£5.6m previous year) on capital schemes and £2.2m (£2.6m previous year) on special revenue projects. Details of the capital financing is contained in Note 34 to the Accounts (Capital Expenditure and Financing)

The Council's General Fund capital programme is limited by the resources available. The majority of the larger one-off schemes are delivered in partnership in order to maximise external funding and to minimise the risk to the Council.

The current General Fund capital programme is dominated by the Littlehampton Leisure Centre (LLC) which is being built on the existing site in Sea Lane, Littlehampton. Enabling works commenced May 2017 with a ground breaking ceremony in September 2017 to celebrate the commencement of the construction phase. It is anticipated the new leisure centre will be open by April 2019. The capital element of the scheme is financed from a variety of sources including capital receipts, capital grants and revenue finance. During 2017/18 the Council was awarded £1.0m capital grant from the Sports Council and revenue underspends were identified allowing an additional contribution of £2.0m to the LLC earmarked reserve as mentioned above. The budget for 2018/19 includes a £1.5m revenue contribution to the scheme. The project is now fully funded without the requirement for prudential borrowing which would have negated some of the revenue savings associated with the Leisure contract. The offer of a new Leisure Centre contributed to the significant improvement in the Leisure management fee received by the Council when the contract was retendered during 2015/16. The new Leisure contract commenced on 1 April 2016 and will run for 10 years.

The Council purchased Bognor Regis Arcade in October 2017, which has shops on the ground floor with offices above as part of the Property Investment Strategy, which will prove to be a sound investment providing additional income.

The Council acquired 10 self-contained properties in Wick to provide quality temporary accommodation for those people that are in severe housing need and to reduce expenditure on bed and breakfast provision.

The most significant issue for the Housing Revenue Account is the acquisition/new build programme, a key objective of the Council's HRA Business Plan (see below). There were two acquisitions made during the year and the first tranche of 11 new build properties were handed over to the Council during the year. The remaining 22 properties are to be handed over in stages with the last being by the end of June 2018.

Examples of major schemes:



Council House new builds in Barnham  
(£0.322m (£0.803m 2016/17))



Council House new builds in Wick and Bognor  
Regis (£2.671m (£0.447k 2016/17))



Temporary Accommodation Units in Wick  
(£1.760m)



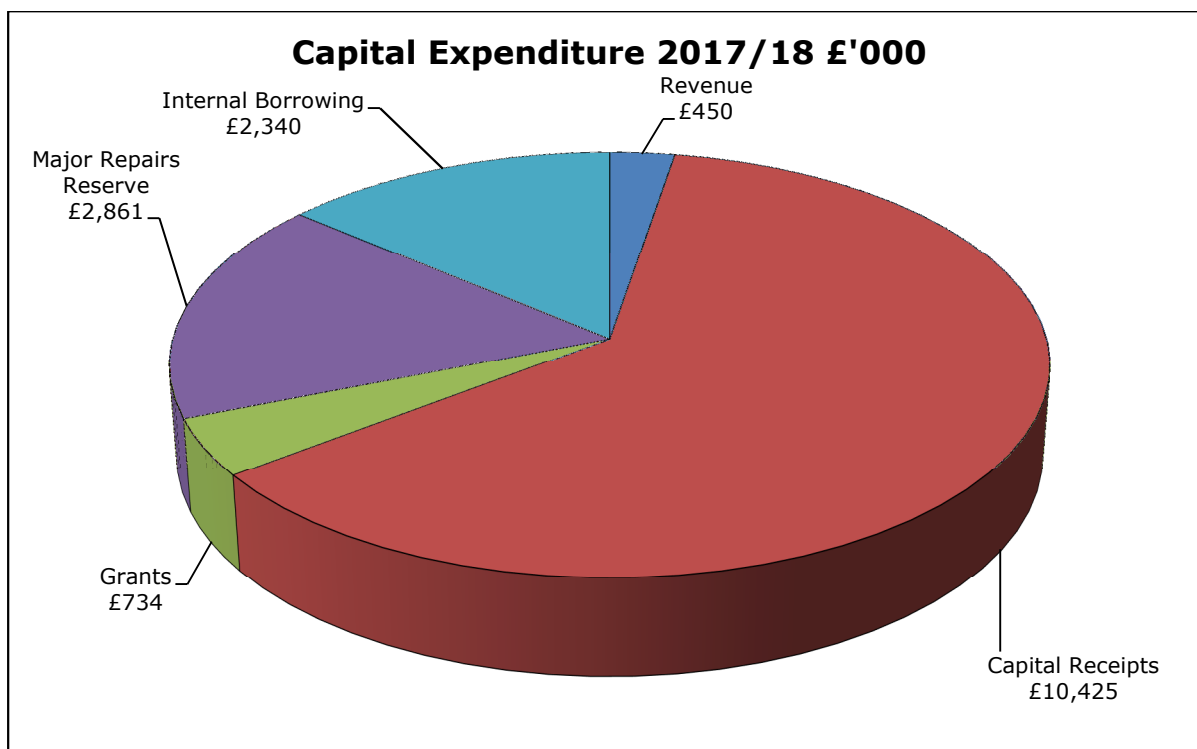
The Arcade Bognor Regis (£1.19m)



New Leisure Centre in Littlehampton (£5.987m  
(£0.638m 2016/17))



The total financing of Capital Expenditure for 2017/18 is summarised below:



### Pensions Liability

Under the requirements of IAS 19 the Council shows the total future costs of pension liabilities for the Local Government Pension Scheme. It is important to note that as the liability is matched by a reserve, the figures do not have any effect on the level of Council Tax. At 31 March 2018 the liability was £21.6m compared with £27.2m for the previous year. The decrease is largely attributable to changes in the financial assumptions and return on assets. The relevant details are shown in Note 38 Defined Benefit Pension Scheme.

### Treasury Management

The Council has significant cash surpluses, and these are mainly invested with the highest quality banks and building societies and £5m is invested in a local authority property fund. All investments are made in strict compliance with the CIPFA Treasury Management Code of Practice. Total investments amounted to £60.7m (£61m including accrued interest), managed entirely internally. The portfolio included £3.0m invested for longer than one year. The total interest earned in 2017/18 was £0.696m, representing an average interest rate of 1.05% (2016/17 1.11%).

### Balances and Reserves

The Council's total usable reserves at 31 March 2018 amounted to £40.725m, a decrease of £4.0m compared with the previous year. They were comprised of: earmarked reserves £18.460m; Housing Revenue Account balance £6.625m; General Fund Revenue balance £9.344m; usable capital receipts £4.957m; and Housing Major Repairs Reserve £1.338m.

### Risk and Uncertainty

Arun has a risk management policy and strategy which sets out the process for managing strategic and operational risk in relation to performance targets including achievement of the

Council's objectives. The Strategic Risk Register was reviewed by the Audit and Governance Committee at its meeting on 7<sup>th</sup> December 2017 and is published on the Council's website. The key financial risks focus on the uncertainty surrounding Government funding and the increase in responsibility for and demand for Homelessness related services (as mentioned above); and the threats related to the General Data Protection Regulations; and Cybersecurity.

## Explanation of the Accounting Statements

The Statement of Accounts for 2017-18 sets out the Council's income and expenditure for the year, and its financial position as at 31<sup>st</sup> March 2018.

The format and content of these financial statements is prescribed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice in Local Authority Accounting, which is underpinned by International Financial Reporting Standards. The Financial Statements comprise of core and supplementary statements, together with disclosure notes.

A Glossary of Terms can be found at the end of this publication.

**The Core Statements** (listed in the Contents on page i) are:

- The **Comprehensive Income and Expenditure Statement**; this shows income and expenditure on all Council services (including Council Housing), transactions of a corporate nature including financing transactions (general government grants, non-domestic rates and Council tax), revaluation gains and losses on fixed assets, and actuarial gains and losses on the Defined Benefit Pension Scheme. This primary performance statement shows a surplus on provision of services for the year of £18.160m. Other charges relating to fixed assets and pensions, are not proper charges against the General Fund or HRA balances, and are required to be reversed out of the statements. When this is allowed for, the General Fund increased by £1.102m and HRA balances (including Major Repairs Reserve), decreased by £0.542m.
- The **Balance Sheet** discloses the Council's assets, liabilities, balances and reserves as at the year end, excluding any internal balances. The change in balances between March 2017 and March 2018 reflects an increase of £12.720m in the valuation of the Council's housing stock. The value of Investment Property has also increased by £3.619m reflecting the purchase of Bognor Regis Arcade of £1.919m and a revaluation gain of £1.7m.
- The **Movement in Reserves Statement** shows changes in the Council's reserves for the year, and essentially reconciles the Comprehensive Income and Expenditure Statement with those items which may not fall to be charged to the General Fund under statute and those which do fall to be met from the General Fund also under statute.
- The **Cash Flow Statement** summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined, for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

**The supplementary financial statements** (listed in the Contents on pages i and ii) are:

- The **Housing Revenue Account**; this separately identifies the Council's statutory landlord function as a provider of social housing under the Local Government Act 1989. It shows income and expenditure on the management, maintenance and supervision of council housing. Separate disclosure of the accounts related to this service is required by statute. There is also the Movement on the HRA Statement analogous to the Movement in Reserves Statement. These statements are a subset of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement.
- The **Collection Fund Statement**; this is a separate statutory account containing transactions related to Council Tax, Business Rates, and precept payments to West Sussex County Council and the Sussex Police and Crime Commissioner. Arun District Council's own taxation requirement is also transferred from the Collection Fund. Collection Fund transactions are not included in the Comprehensive Income and Expenditure Statement.
- The **Expenditure and Funding Analysis** shows how annual expenditure is used and funded from resources in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. A breakdown of the Adjustments can be found in Note 7.

The Notes to these financial statements provide more detail about the Council's accounting policies and individual transactions.

Further information on the accounts is available from the Group Head of Corporate Support, Arun Civic Centre, Maltravers Road, Littlehampton.



## Statement of Responsibilities

### The Authority's Responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Group Head of Corporate Support.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### Responsibilities of the Group Head of Corporate Support

The Group Head of Corporate Support 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 Group Head of Corporate Support has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.

The Group Head of Corporate Support has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

#### Certificate of Group Head of Corporate Support and Section 151 Officer

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2018. I confirm that the date of this declaration is the date up to which events have been considered for inclusion within the Council's Statement of Accounts and that events after the Balance Sheet date have been considered to this date and the accounts amended accordingly for such events and adjustments arising from audit. The accounts are therefore authorised for issue.



Alan Peach C.P.F.A., Group Head of Corporate Support

Dated 31 May 2018

## Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Net Expenditure Chargeable to the General Fund and HRA Balance	2016/17		Net Expenditure in the Comprehensive Income and Expenditure Statement	2017/18		Net Expenditure in the Comprehensive Income and Expenditure Statement
	Adjustments			Adjustments		
£000	£000	£000	£000	£000	£000	£000
1,733	643	2,376	Community Wellbeing	1,245	689	1,934
2,020	61	2,081	Corporate Support Group	1,651	257	1,908
1,471	103	1,573	Economy	366	131	497
(1,854)	(20,009)	(21,864)	Local Authority Housing (HRA)	(1,468)	(16,282)	(17,751)
5,055	362	5,417	Neighbourhood Services	2,616	687	3,303
1,116	48	1,163	Planning	669	209	878
(95)	15	(80)	Residential Services	806	1,172	1,978
468	601	1,069	Technical Services	876	931	1,806
7,162	449	7,611	Management & Support Services	7,130	1,223	8,353
0	(832)	(832)	Non distributed costs / gains	0	550	550
<b>17,074</b>	<b>(18,559)</b>	<b>(1,485)</b>	<b>Net Cost of Services</b>	<b>13,891</b>	<b>(10,434)</b>	<b>3,457</b>
(16,845)	(3,882)	(20,727)	Other Income and Expenditure	(18,309)	(3,307)	(21,617)
<b>229</b>	<b>(22,442)</b>	<b>(22,212)</b>	<b>Surplus or Deficit on Provision of Services</b>	<b>(4,419)</b>	<b>(13,741)</b>	<b>(18,160)</b>
(30,240)			Opening Combined General Fund and HRA Balance	(30,011)		
229			Plus / less Surplus or Deficit on the General Fund and HRA Balance for the Year (Statutory basis)	(4,419)		
<b>(30,011)</b>			<b>Closing Combined General Fund and HRA Balance</b>	<b>(34,430)</b>		

## Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2016/17				2017/18		
Expenditure	Income	Net		Expenditure	Income	Net
£000	£000	£000	Notes	£000	£000	£000
3,858	(1,482)	2,376	Community Wellbeing	3,830	(1,896)	1,934
52,049	(49,968)	2,081	Corporate Support Group	51,020	(49,113)	1,907
1,891	(318)	1,573	Economy	1,356	(859)	497
(4,714)	(17,150)	(21,864)	Local Authority Housing (HRA)	(1,170)	(16,581)	(17,751)
10,285	(4,868)	5,417	Neighbourhood Services	10,993	(7,690)	3,303
2,304	(1,140)	1,164	Planning	2,050	(1,172)	878
1,088	(1,168)	(80)	Residential Services	2,718	(741)	1,977
3,345	(2,277)	1,068	Technical Services	4,095	(2,289)	1,806
7,979	(368)	7,611	Management & Support Services	8,793	(440)	8,353
0	(832)	(832)	Non distributed costs / gains	550	0	550
<b>78,086</b>	<b>(79,571)</b>	<b>(1,485)</b>	<b>Cost of Services</b>	<b>84,237</b>	<b>(80,780)</b>	<b>3,457</b>
6,385	(3,063)	3,322	11 Other Operating Expenditure	4,663	(731)	3,932
6,659	(4,858)	1,801	12 Financing and Investment Income and Expenditure	6,313	(6,435)	(121)
0	0	0	Surplus or Deficit on Discontinued Operations	0	0	0
0	(25,850)	(25,850)	13 Taxation and Non Specific Grant Income	0	(25,428)	(25,428)
<b>91,130</b>	<b>(113,342)</b>	<b>(22,212)</b>	<b>Surplus or Deficit on Provision of Services</b>	<b>95,214</b>	<b>(113,374)</b>	<b>(18,160)</b>
		255	24 Surplus or deficit on revaluation of Property, Plant and Equipment			(5,400)
		0	24 Impairment losses on non-current assets charged to the Revaluation Reserve			0
		154	24 Surplus or deficit on revaluation of available for sale financial assets			(148)
		(402)	38 Remeasurement of the net defined benefit liability / asset			(7,223)
		<b>7</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(12,772)</b>
		<b>(22,205)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(30,931)</b>

## Movement in Reserves Statement

The Movement in Reserves 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' (ie 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 to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

	<b>Total General Fund Balance</b>	<b>Total HRA Balance</b>	<b>Capital Receipts Reserve</b>	<b>Major Repairs Reserve</b>	<b>Capital Grants Un- applied Account</b>	<b>Total Usable Reserves</b>	<b>Unusable Reserves</b>	<b>Total Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 31 March 2017</b>	(23,023)	(6,988)	(13,197)	(1,517)	0	<b>(44,725)</b>	(181,909)	<b>(226,634)</b>
<b>Movement in reserves during 2017/18</b>								
Surplus or deficit on the provision of services	(1,194)	(16,966)				<b>(18,160)</b>		<b>(18,160)</b>
Other Comprehensive Income / Expenditure							(12,772)	<b>(12,772)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(1,194)</b>	<b>(16,966)</b>				<b>(18,160)</b>	<b>(12,772)</b>	<b>(30,931)</b>
Adjustments between accounting basis and funding basis under regulations	(3,587)	17,328	8,240	179	0	<b>22,161</b>	(22,161)	<b>0</b>
<b>Increase or Decrease in 2017/18</b>	<b>(4,781)</b>	<b>363</b>	<b>8,240</b>	<b>179</b>	<b>0</b>	<b>4,001</b>	<b>(34,932)</b>	<b>(30,931)</b>
<b>Balance at 31 March 2018</b>	<b>(27,804)</b>	<b>(6,625)</b>	<b>(4,957)</b>	<b>(1,338)</b>	<b>0</b>	<b>(40,725)</b>	<b>(216,841)</b>	<b>(257,565)</b>

### General Fund Analysed over

Amounts uncommitted	(9,344)
Amounts earmarked	(18,460)
<b>Total balance</b>	<b>(27,804)</b>

	<b>Total General Fund Balance £000</b>	<b>Total HRA Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Major Repairs Reserve £000</b>	<b>Capital Grants Un- applied Account £000</b>	<b>Total Usable Reserves £000</b>	<b>Unusable Reserves £000</b>	<b>Total Reserves £000</b>
<b>Balance at 31 March 2016</b>	(23,338)	(6,903)	(11,775)	(1,037)	0	<b>(43,053)</b>	(161,376)	<b>(204,428)</b>
<b>Movement in reserves during 2016/17</b>								
Surplus or deficit on the provision of services	(782)	(21,430)				<b>(22,212)</b>		<b>(22,212)</b>
Other Comprehensive Income / Expenditure							7	<b>7</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(782)</b>	<b>(21,430)</b>				<b>(22,212)</b>	<b>7</b>	<b>(22,205)</b>
Adjustments between accounting basis and funding basis under regulations	1,097	21,345	(1,422)	(480)	0	<b>20,540</b>	(20,540)	<b>0</b>
<b>Increase or Decrease in 2016/17</b>	<b>315</b>	<b>(85)</b>	<b>(1,422)</b>	<b>(480)</b>	<b>0</b>	<b>(1,672)</b>	<b>(20,533)</b>	<b>(22,205)</b>
<b>Balance at 31 March 2017</b>	<b>(23,023)</b>	<b>(6,988)</b>	<b>(13,197)</b>	<b>(1,517)</b>	<b>0</b>	<b>(44,725)</b>	<b>(181,909)</b>	<b>(226,634)</b>
<b>General Fund Analysed over</b>								
Amounts uncommitted	(8,242)							
Amounts earmarked	(14,781)							
<b>Total balance</b>	<b>(23,023)</b>							

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet 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. Reserves are reported in two categories. The first category of reserves are 'usable reserves', i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves contains those that the Council is not able to use to provide services. This category of reserves includes reserves Statements that hold unrealised gains and losses (for example, the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2017		31 March 2018	
£000	Notes		£000
260,414	14	Property, Plant and Equipment	285,650
617	15	Investment Property	4,236
160	16	Intangible Assets	187
0	20	Assets Held for Sale	0
13,846	17	Long Term Investments	7,995
17	17	Long Term Debtors	23
<b>275,055</b>		<b>Long Term Assets</b>	<b>298,089</b>
0	15	Current Assets Held for Sale Investment Property	0
0	16	Current Intangible Assets	0
44,374	17	Short-term Investments	47,316
0	20	Assets Held for Sale	0
3,898	18	Short Term Debtors	5,263
3,475	19	Cash and Cash Equivalents	6,513
<b>51,747</b>		<b>Current Assets</b>	<b>59,093</b>
(13,519)	21	Short-Term Creditors	(12,870)
(2,006)	22	Provisions	(1,710)
(665)	32	Grants Receipts in Advance - Capital	(1,484)
<b>(16,191)</b>		<b>Current Liabilities</b>	<b>(16,064)</b>
(2,641)	21A	Long-Term Creditors	(7,600)
0	22	Provisions	0
(53,180)	17	Long Term Borrowing	(53,180)
(28,156)	35/38	Other Long-Term Liabilities	(22,773)
<b>(83,977)</b>		<b>Long Term Liabilities</b>	<b>(83,553)</b>
<b>226,634</b>		<b>Net Assets</b>	<b>257,565</b>

(44,725)	23	Usable Reserves	(40,725)
(181,909)	24	Unusable Reserves	(216,841)
<b>(226,634)</b>		<b>Total Reserves</b>	<b>(257,565)</b>



Alan Peach C.P.F.A., Group Head of Corporate Support

31 May 2018

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement 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. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2016/17			2017/18
£000	Notes		£000
(22,212)		Net (surplus) or deficit on the provision of services	(18,160)
7,807	25	Adjustment to surplus or deficit on the provision of services for noncash movements	1,065
3,063	25	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	2,643
<b>(11,342)</b>		<b>Net cash flows from operating activities</b>	<b>(14,453)</b>
5,086	26	Net cash flows from investing activities	8,439
5,352	27	Net cash flows from financing activities	2,976
<b>(904)</b>		<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>(3,038)</b>
2,571		Cash and cash equivalents at the beginning of the reporting period	3,475
<b>3,475</b>		<b>Cash and cash equivalents at the end of the reporting period</b>	<b>6,513</b>



## Note 1 - Accounting Policies

### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, and those Regulations require the statements to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### ii. Accruals of Expenditure and Income

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet, subject to considerations of materiality.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made, subject to considerations of materiality.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **iii. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### **iv. 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.

### **v. Prior Period Adjustments, Changes in Accounting Policies and Estimates & Errors**

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, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when 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. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

### **vi. Charges to Revenue for Non-Current Assets**

Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution

from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance for MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Whilst the Council is no longer debt-free, the debt held relates solely to the HRA self-financing settlement, and under current regulations there is no requirement for MRP. However, the Council has an approved loan repayment provision policy which ensures that there will be sufficient funds available to repay the housing debt when it matures.

## **vii. Council Tax and Non-Domestic Rates**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including Government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionally the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### *Accounting for Council Tax and NDR:*

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of the year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## **viii. Employee Benefits**

### *Benefits Payable during Employment:*

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses 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 (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates

applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on 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.

#### *Termination Benefits:*

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

#### *Post-employment Benefits:*

Employees of the Council are members of The Local Government Pensions Scheme, administered by West Sussex County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

#### *The Local Government Pension Scheme:*

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the West Sussex County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices using an appropriate discount rate.
- The assets of the West Sussex County Council Pension Fund attributable to the council 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.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
  - net interest on the 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.
- Remeasurements comprising:
  - 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the West Sussex County Council Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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 or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers 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 pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

*Discretionary Benefits:*

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

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

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

**x. Financial Instruments***Financial Liabilities:*

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

For the borrowings that the Council has, this means that 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.

Trade payables (amounts due to contractors and suppliers) are recognised in the accounts when contractual obligations are incurred in relation to exchange of goods and services, rather than when receipts or payments pass from one party to another. The trade payables are accounted for at amortised cost taken as being equivalent to the carrying amount on initial recognition (i.e. the transaction amount).

The financial guarantees given by the Council are not recognised in the Balance Sheet, but are disclosed in note 39.

#### *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 recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. 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 carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

#### *Available-for-sale Assets:*

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value (see xxi). 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 (e.g. 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 – multiple valuation techniques (which include market approach, income approach and cost approach).

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/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 under the contract will not be made (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).

## **xi. Government 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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.



Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **xii. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

## **xiii. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value (see xxi). Properties are not depreciated but are revalued annually by a professionally qualified valuer according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However,

revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

#### **xiv. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

*The Council as Lessee:*

*Finance Leases:*

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant, or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards deemed capital investment in accordance with statutory

requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

*Operating Leases:*

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, which matches the pattern of payments in all cases.

*The Council as Lessor:*

*Finance Leases:*

The Council has no leases currently determined as finance leases.

*Operating Leases:*

Where the Council grants an operating lease over a property, the asset is retained in the Balance Sheet. Rental income is credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, which matches the pattern of receipts in all cases.

## **xv. Support Services**

Support Services are identified as a separate heading in the Comprehensive Income and Expenditure Statement except for the proportion allocated to the Housing Revenue Account in line with the Council's local reporting format.

## **xvi. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

*Recognition:*

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. Expenditure on individual items of less than £25k is regarded as de minimis, and charged to revenue.

*Measurement:*

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be their fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- surplus assets – the current value measurement base is fair value, the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.]

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

#### *Impairment:*

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

#### *Depreciation:*

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- buildings (other than HRA dwellings) – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant and equipment – generally straight-line allocation over 5 - 20 years
- infrastructure – straight-line allocation over 20 - 40 years
- HRA dwellings – depreciation is calculated by assuming a remaining useful life of 46 years for houses and 45 years for flats. These figures are based on weighted averages of the remaining useful lives of the key components of each dwelling (structure, roof, heating & associated systems, lifts where applicable, electrical installations and external works), calculated by the Council's qualified external valuer.

Where appropriate the individual components of an asset will be depreciated separately. The materiality thresholds for applying componentisation are as follows:

- Assets other than HRA dwellings: Componentisation will only apply to an asset whose depreciable capital value is greater than or equal to £500k.
- HRA dwellings: The basis of depreciation for HRA dwellings (46 years for houses and 45 years for flats) serves as a proxy for componentisation as the relevant useful lives are calculated by reference to the weighted average of the useful lives of the key components.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

#### *Disposals and Non-current Assets Held for Sale:*

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10k are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government in accordance with statutory requirements. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). A further constraint applies to the use of the additional receipts resulting from the Government's policies for reinvigorating the Right to Buy. In accordance with the terms of an agreement between the Council and the Government these receipts can only be used to fund 30% of the cost of new social housing, the remaining 70% being met from other resources. Failure to meet these conditions will result in the receipts being paid to the Government. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

*Disposals and Non-current Assets Held for Sale:*

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

**xvii. Provisions, Contingent Liabilities and Contingent Assets**

*Provisions:*

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has an obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from insurance claim), this is only recognised as income for the relevant service area if it is virtually certain that reimbursement will be received if the Council settles the obligation.

#### *Contingent Liabilities:*

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

#### *Contingent Assets:*

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **xviii. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into 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 non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.



## **xix. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **xx. Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **xi. Fair Value**

The Council measures some of its non-financial assets such as Surplus Assets and Investment Properties and some of its Financial Instruments such as Property Funds and Public Works Loan Board (PWLB) loans at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability

The Council's external valuers measure the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming the market participants act in their economic best interest. When measuring the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use is taken into account.

Valuation techniques are used that are appropriate in the circumstances and for which sufficient data is available, where possible maximising the use of relevant observable inputs and minimising the use of unobservable inputs. These inputs are categorised within the fair value hierarchy as follows:

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

## Note 2 - Accounting Standards Issued, Not Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new accounting standard, but one which has not yet been implemented.

**IFRS 9 Financial Instruments** has been implemented in the 2018/19 CIPFA Accounting Code of Practice. Its introduction will see the classifications of financial assets change to Amortised Cost, Fair Value through Comprehensive Income and Fair Value through Profit and Loss, from the previous categories of Loans and Receivables, Available for Sale and Fair Value through Profit and Loss. The second main change will be the introduction of an expected credit loss model for particular asset types, rather than an impairment of the asset resulting from a specific incident.

The impact of these changes on the Council's financial position can be summarised as follows:

The Council currently hold investments in property/bond/multi asset funds which, under the revised arrangements, will no longer be classified as Available for Sale, but Fair Value through the Profit and Loss. This will mean any capital gains or losses will have a direct impact on the General Fund Balance. The Council currently holds £5m of such assets. There are indications that the Government will introduce a statutory over-ride to protect short term fluctuations from impacting on the General Fund Balance, although details of this arrangement have not yet been formalised.

**IFRS 15 Revenue from Contracts with Customers** sets out the requirements for recognising revenue that apply to contracts with customers, except for those covered by standards on leases, insurance contracts and financial instruments. The Council does not have any material revenue streams within the scope of the new standard.

**IAS 7 Statement of Cash Flows** (Disclosure Initiative) provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Council may have to provide additional information in future years to enable further analysis of Cash Flows from Financing Activities if material.

**IAS 12 Income Taxes** (Recognition of Deferred tax Assets for Unrealised Losses) relates to changes in the tax status of an entity or its shareholders. The Council does not have any subsidiary companies at the present time so is unlikely to have any impact.

**IFRS 16 Leases** will require Council's that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities.

### Note 3 - Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in the Accounting Policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are as follows:

- There is a high degree of uncertainty about future levels of funding for local government, particularly with regard to Business Rate Retention and the New Homes Bonus. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Transactions related to leases form a fairly insignificant part of the Council's total income and expenditure. However, there is a requirement to assess whether leases are finance or operating leases. In making this assessment, officers have had regard to CIPFA guidance and the advice received from consultants. The conclusion of these deliberations is that all current leases are operating leases.
- The Council is required to determine whether any of its contractual arrangements has the substance of a lease. Officers have considered and obtained advice upon the vehicles and plant equipment used in the combined cleansing contract, the grounds maintenance contract, the housing repairs and maintenance contracts. In the cases of the combined cleansing and grounds maintenance contracts the advice received has been that the contractual arrangements do have the substance of a lease. The accounts for 2017/18 have been prepared on the basis of this advice.
- In the course of providing its services, the Council has dealings with many entities. However, after due consideration by officers, it has been determined that none of these entities are controlled by the Council and that publication of group accounts is therefore unnecessary. Particular attention has been paid to the Littlehampton Harbour Board and Age Concern West Sussex. The Council is considering the setting up of a wholly owned Local Property Company and has registered the name of the Company - "Trisanto Development Corporation" - at companies house. However, the Company is dormant and there are no implications for the 2017/18 accounts.
- The Council has made judgements on a prudent level of allowances for doubtful debts. These are based on historical experience of debtor defaults and the current economic climate. By far the largest allowance relates to Housing Benefit overpayments, where due to the nature of these debts, 100% provision is made for debts over one year old and 50% provision for debts less than one year old.
- The Council has made judgements about the likelihood of potential liabilities and whether provision should be made. The judgements are based on the degree of certainty and an assessment of the likely impact. Provisions resulting from these judgements are disclosed in Note 22 and contingent liabilities in Note 39.

- Retirement Benefit Obligations - The Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirements of IAS 19 "Employee Benefits". The estimation of the net pension liability depends on a number of complex judgements and estimates 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. West Sussex County Council, as the Pension Administering Authority, engages a firm of actuaries to provide expert advice about the assumptions to be applied. Changes in these assumptions made are set out in Note 1 and transactions disclosed in Note 30.

## Note 4 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of assets falls. It is estimated that the annual depreciation charge would increase by £402k for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments 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.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the Real Discount Rate assumption would result in an increase in the pension liability of £15.847 million.  However the assumptions interact in complex ways. During 2017/18, the Council's actuaries advised that the net pension liability had decreased by £5.564 million attributable to changes in financial assumptions and return on assets.
Doubtful debt allowances	The Council has made allowances for doubtful debts of £2.827 million in 2017/18 (£2.734 million in 2016/17) based on what it believes to be a prudent but realistic level.	If debt collection rates were to deteriorate or improve, a 5% change in the allowances would require an adjustment to the allowance of £141k (£137k in 2016/17).

Item	Uncertainties	Effect if actual results differ from assumptions
Provisions	<p>A provision of £1.710 million has been made in respect of the Council's share of the estimated amounts which will be refunded in respect of business rate liability for 2017/18 and earlier years, following successful challenges and appeals. The provision is based on advice received from the Council's business rating consultants.</p>	<p>Business rates are an extremely volatile source of income and successful challenges and appeals can lead to a significant reduction in the amount receivable. If the amounts refunded following successful challenges and appeals were greater or less than anticipated, a 10% change in the provision would equate to £171k.</p>
Fair Value Measurements	<p>When the fair values of non-financial assets and financial assets/liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. discounted cash flow (DCF) model). Where possible these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk for financial assets and rent growth for non-financial assets.</p> <p>Where Level 1 inputs are not available the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for Investment Property, the Council's external valuer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in Notes 1 and 15.</p>	<p>Significant changes in any of the relevant factors or assumptions would result in a significantly lower or higher fair value measurement for the asset.</p>

## **Note 5 - Material Items of Income and Expense**

There are no material items of income and expense to disclose that are not reported in the Comprehensive Income and Expenditure Statement.

## **Note 6 - Events After the Balance Sheet Date**

The Statement of Accounts was authorised for issue by the Group Head of Corporate Support on 31 May 2018. 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 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## Note 7 - Note to the Expenditure and Funding Analysis

	<b>Net Capital Statutory Adjustments</b>	<b>Net Pensions Statutory Adjustments</b>	<b>2017/18 Other Statutory Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Community Wellbeing	510	180	0	0	689
Corporate Support Group	0	257	0	0	257
Economy	89	42	0	0	131
Local Authority Housing (HRA)	(16,518)	236	0	0	(16,282)
Neighbourhood Services	477	209	0	0	687
Planning	0	209	0	0	209
Residential Services	1,098	74	0	0	1,172
Technical Services	670	261	0	0	931
Management & Support Services	205	1,018	0	0	1,223
Non distributed costs / gains	0	550	0	0	550
<b>Net Cost of Services</b>	<b>(13,469)</b>	<b>3,035</b>	<b>0</b>	<b>0</b>	<b>(10,434)</b>
Other Income and Expenditure	(2,623)	(1,376)	691	0	(3,307)
<b>Difference between the Statutory Charge and the Surplus or Deficit in the Comprehensive Income and Expenditure Statement</b>	<b>(16,092)</b>	<b>1,659</b>	<b>691</b>	<b>0</b>	<b>(13,741)</b>



	<b>Net Capital Statutory Adjustments</b>	<b>Net Pensions Statutory Adjustments</b>	<b>2016/17 Other Statutory Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Community Wellbeing	600	43	0	0	643
Corporate Support Group	0	61	0	0	61
Economy	89	13	0	0	103
Local Authority Housing (HRA)	(20,065)	56	0	0	(20,009)
Neighbourhood Services	317	45	0	0	362
Planning	0	48	0	0	48
Residential Services	0	15	0	0	15
Technical Services	541	60	0	0	601
Management & Support Services	218	231	0	0	449
Non distributed costs / gains	0	(832)	0	0	(832)
<b>Net Cost of Services</b>	<b>(18,299)</b>	<b>(260)</b>	<b>0</b>	<b>0</b>	<b>(18,559)</b>
Other Income and Expenditure	(995)	(444)	(2,444)	0	(3,882)
	<b>(19,294)</b>	<b>(704)</b>	<b>(2,444)</b>	<b>0</b>	<b>(22,442)</b>
<b>Difference between the Statutory Charge and the Surplus or Deficit in the Comprehensive Income and Expenditure Statement</b>					

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments - Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

Other Differences - Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For services this represents the removal of Accumulated Absences.
- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## Note 8 - Expenditure and Income Analysed by Nature

	<b>2016/17</b> <b>£'000</b>	<b>2017/18</b> <b>£'000</b>
<b>Expenditure / Income</b>		
<b>Expenditure</b>		
Employee benefits expenses	2,678	4,269
Other services expenses	87,177	87,275
Support service recharges	0	0
Depreciation, amortisation, impairment	(11,797)	(7,243)
Interest payments	6,686	6,250
Precepts and levies	4,138	4,206
Payments to Housing Capital Receipts Pool	343	457
Loss on the disposal of assets	1,905	0
<b>Total expenditure</b>	<b>91,130</b>	<b>95,214</b>
<b>Income</b>		
Fees, charges and other service income	30,026	31,017
Interest and investment income	4,693	4,595
Income from council tax, non-domestic rates, district rate income	18,022	17,981
Government grants and contributions	60,448	59,807
Gain on the disposal of assets	153	(26)
<b>Total income</b>	<b>113,342</b>	<b>113,374</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>(22,212)</b>	<b>(18,160)</b>

## Note 9 - 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 arrive at the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2017/2018	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension cost (transferred to (or from) the Pensions Reserve)	(1,708)	49				1,659
Council tax and NDR (transfers to or from the Collection Fund)	(691)					691
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(1,565)	8,597			0	(7,032)
Total Adjustments to Revenue Resources	(3,964)	8,646	0	0	0	(4,681)

<b>2017/2018 (Continued)</b>	<b>General Fund Balance</b>	<b>Housing Revenue Account</b>	<b>Capital Receipts Reserve</b>	<b>Major Repairs Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Movement in Unusable Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(457)		457			
Posting of Housing Revenue Account resource from revenue to the Major Repairs Reserve		6,226		(6,226)		
Borrowing or liabilities met from the Major Repairs Reserve				3,544		(3,544)
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	199					(199)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	450	0				(450)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>377</b>	<b>8,683</b>	<b>(2,185)</b>	<b>(2,682)</b>	<b>0</b>	<b>(4,193)</b>
<b>Adjustments to Capital Resources</b>						
Use of the Capital Receipts Reserve to finance capital expenditure			10,425			(10,425)
Use of the Major Repairs Reserve to finance new capital expenditure				2,861		(2,861)
Application of capital grants to finance capital expenditure					0	0
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>10,425</b>	<b>2,861</b>	<b>0</b>	<b>(13,286)</b>
<b>Total Adjustments</b>	<b>(3,587)</b>	<b>17,328</b>	<b>8,240</b>	<b>179</b>	<b>0</b>	<b>(22,161)</b>

<b>2016/2017</b>	<b>General Fund Balance £000</b>	<b>Housing Revenue Account £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Major Repairs Reserve £000</b>	<b>Capital Grants Unapplied £000</b>	<b>Movement in Unusable Reserves £000</b>
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension cost (transferred to (or from) the Pensions Reserve)	588	116				(704)
Council tax and NDR (transfers to or from the Collection Fund)	2,444					(2,444)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(1,787)	11,740			(61)	(9,892)
<b>Total Adjustments to Revenue Resources</b>	<b>1,245</b>	<b>11,856</b>	<b>0</b>	<b>0</b>	<b>(61)</b>	<b>(13,040)</b>

<b>2016/2017 (Continued)</b>	<b>General Fund Balance £000</b>	<b>Housing Revenue Account £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Major Repairs Reserve £000</b>	<b>Capital Grants Unapplied £000</b>	<b>Movement in Unusable Reserves £000</b>
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	153	2,911	(3,063)			
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(343)		343			
Posting of Housing Revenue Account resource from revenue to the Major Repairs Reserve		6,579		(6,579)		
Borrowing or liabilities met from the Major Repairs Reserve				3,544		(3,544)
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	42					(42)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	0	0				0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(149)</b>	<b>9,490</b>	<b>(2,720)</b>	<b>(3,035)</b>	<b>0</b>	<b>(3,586)</b>
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure			1,299			(1,299)
Use of the Major Repairs Reserve to finance new capital expenditure				2,555		(2,555)
Application of capital grants to finance capital expenditure					61	(61)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>1,299</b>	<b>2,555</b>	<b>61</b>	<b>(3,914)</b>
<b>Total Adjustments</b>	<b>1,097</b>	<b>21,345</b>	<b>(1,422)</b>	<b>(480)</b>	<b>0</b>	<b>(20,540)</b>

## Note 10 - Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

The balance for delayed capital projects at the year end represents the difference between the approved budget for the schemes and actual expenditure incurred.

The balance on the pension deficit financing reserve comprises sums set aside to meet anticipated past service costs.

The remaining reserves are shown grouped by the revised service portfolios agreed in May 2017, and represent: approved but delayed revenue projects; or grants and contributions received from partnership bodies in advance of allocation to specific projects.

	Balance at 1 April 2016	Transfers In 2016/17	Transfers Out 2016/17	Balance at 31 March 2017	Transfers In 2017/18	Transfers Out 2017/18	Balance at 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund Reserves:</b>							
Delayed capital & special projects	(2,557)	(4,289)	2,557	<b>(4,289)</b>	(3,612)	4,289	<b>(3,612)</b>
Pension deficit financing	(4,104)	0	951	<b>(3,153)</b>	0	951	<b>(2,202)</b>
Community Wellbeing	(1,154)	(1,806)	158	<b>(2,802)</b>	(4,301)	539	<b>(6,564)</b>
Corporate Governance	(1,513)	(534)	1,458	<b>(589)</b>	(1,384)	633	<b>(1,341)</b>
Economy	(1,540)	(243)	1,344	<b>(439)</b>	(189)	375	<b>(253)</b>
Neighbourhood Services	(312)	(84)	38	<b>(359)</b>	(140)	24	<b>(475)</b>
Planning	(1,070)	(747)	488	<b>(1,328)</b>	(825)	322	<b>(1,830)</b>
Residential Services	(257)	(783)	66	<b>(974)</b>	(400)	122	<b>(1,252)</b>
Technical Services	(670)	(314)	136	<b>(849)</b>	(261)	177	<b>(932)</b>
<b>Total General Fund</b>	<b>(13,177)</b>	<b>(8,800)</b>	<b>7,196</b>	<b>(14,781)</b>	<b>(11,111)</b>	<b>7,432</b>	<b>(18,460)</b>



## Note 11 - Other Operating Expenditure

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
3,784	Precepts	4,061
210	Levies	145
343	Payments to the Government Housing Capital Receipts Pool	457
(1,159)	Gains/losses on the Disposal of Non-Current Assets	(731)
144	Other	0
<b>3,322</b>	<b>Total Other Operating Expenditure</b>	<b>3,932</b>

## Note 12 - Financing and Investment Income and Expenditure

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
1,710	Interest payable and similar charges	1,632
946	Net interest on the net defined benefit liability (asset)	720
(758)	Interest receivable and similar income	(697)
(97)	Income and expenditure in relation to investment properties and changes in their fair value	(1,777)
0	Other investment income and expenditure	0
<b>1,801</b>	<b>Total</b>	<b>(121)</b>

## Note 13 - Taxation and Non-Specific Grant Income

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
(13,544)	Council tax income	(14,309)
(4,477)	Non-domestic rates income and expenditure	(3,673)
(7,768)	Non-ringfenced government grants	(7,446)
(61)	Capital grants and contributions	0
<b>(25,850)</b>	<b>Total</b>	<b>(25,428)</b>

## Note 14 - Property, Plant and Equipment

### Movements to 31 March 2018

	<b>Council Dwellings</b>	<b>Land and Buildings</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Total Property, Plant and Equipment</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>								
<b>at 1 April 2017</b>	195,462	51,669	4,364	14,386	2,789	137	1,888	<b>270,694</b>
Additions	2,684	1,760	1,036	0	0	0	8,980	<b>14,460</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	4,347	0	0	0	(21)	0	<b>4,326</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	10,177	(1,175)	0	0	0	0	0	<b>9,002</b>
Derecognition – disposals	0	0	(49)	0	(6)	0	0	<b>(55)</b>
Derecognition – other	(376)	(195)	(18)	(42)	0	0	0	<b>(630)</b>
Reclassifications and transfer	1,555	0	0	0	0	0	(1,555)	<b>0</b>
Assets reclassified (to)/from Held for Sale	(1,320)	0	0	0	0	0	0	<b>(1,320)</b>
Other movements in cost or valuation	0	0	0	0	0	0	0	<b>0</b>
<b>at 31 March 2018</b>	<b>208,182</b>	<b>56,406</b>	<b>5,333</b>	<b>14,343</b>	<b>2,783</b>	<b>116</b>	<b>9,313</b>	<b>296,476</b>

**Movements to 31 March 2018  
(Continued)**

	<b>Council Dwellings</b>	<b>Land and Buildings</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Surplus Assets Under Construction</b>	<b>Total Property, Plant and Equipment</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Accumulated Depreciation and Impairment</b>							
<b>at 1 April 2017</b>	0	(442)	(667)	(9,171)	0	0	<b>(10,280)</b>
Depreciation charge	(3,613)	(772)	(437)	(646)	0	0	<b>(5,467)</b>
Depreciation written out to the Revaluation Reserve	0	1,075	0	0	0	0	<b>1,075</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,613	139	0	0	0	0	<b>3,752</b>
Derecognition – disposals	0	0	34	0	0	0	<b>34</b>
Derecognition – other	0	0	18	42	0	0	<b>60</b>
Other movements in depreciation and impairment	0	0	0	0	0	0	<b>0</b>
<b>at 31 March 2018</b>	<b>0</b>	<b>0</b>	<b>(1,052)</b>	<b>(9,774)</b>	<b>0</b>	<b>0</b>	<b>(10,826)</b>
<b>Net Book Value</b>							
<b>at 31 March 2018</b>	<b>208,182</b>	<b>56,406</b>	<b>4,281</b>	<b>4,569</b>	<b>2,783</b>	<b>116</b>	<b>285,650</b>
<b>at 31 March 2017</b>	<b>195,462</b>	<b>51,227</b>	<b>3,697</b>	<b>5,215</b>	<b>2,789</b>	<b>137</b>	<b>260,414</b>

**Movements to 31 March 2017**

	<b>Council Dwellings</b>	<b>Land and Buildings</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Total Property, Plant and Equipment</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>								
<b>at 1 April 2016</b>	181,296	53,469	2,624	14,330	2,789	194	0	<b>254,702</b>
Additions	2,542	0	1,762	55	0	0	1,888	<b>6,247</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(1,737)	0	0	0	(56)	0	<b>(1,793)</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	13,370	104	0	0	0	0	0	<b>13,474</b>
Derecognition – disposals	0	(60)	0	0	0	0	0	<b>(60)</b>
Derecognition – other	(97)	(108)	(22)	0	0	0	0	<b>(226)</b>
Reclassifications and transfer	0	0	0	0	0	0	0	<b>0</b>
Assets reclassified (to)/from Held for Sale	(1,650)	0	0	0	0	0	0	<b>(1,650)</b>
Other movements in cost or valuation	0	0	0	0	0	0	0	<b>0</b>
<b>at 31 March 2017</b>	<b>195,462</b>	<b>51,669</b>	<b>4,364</b>	<b>14,386</b>	<b>2,789</b>	<b>137</b>	<b>1,888</b>	<b>270,694</b>

**Movements to 31 March 2017  
(Continued)**

	<b>Council Dwellings</b>	<b>Land and Buildings</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Total Property, Plant and Equipment</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>at 1 April 2016</b>	0	(1,185)	(445)	(8,528)	0	0	0	<b>(10,159)</b>
Depreciation charge	(2,544)	(981)	(244)	(642)	0	0	0	<b>(4,411)</b>
Depreciation written out to the Revaluation Reserve	0	1,538	0	0	0	0	0	<b>1,538</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	2,544	177	0	0	0	0	0	<b>2,721</b>
Depreciation – disposals	0	0	0	0	0	0	0	<b>0</b>
Depreciation – other	0	9	22	0	0	0	0	<b>31</b>
Other movements in depreciation and impairment	0	0	0	0	0	0	0	<b>0</b>
<b>at 31 March 2017</b>	<b>0</b>	<b>(442)</b>	<b>(667)</b>	<b>(9,171)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(10,280)</b>
<b>Net Book Value</b>								
<b>at 31 March 2017</b>	<b>195,462</b>	<b>51,227</b>	<b>3,697</b>	<b>5,215</b>	<b>2,789</b>	<b>137</b>	<b>1,888</b>	<b>260,414</b>
<b>at 31 March 2016</b>	<b>181,296</b>	<b>52,283</b>	<b>2,179</b>	<b>5,802</b>	<b>2,789</b>	<b>194</b>	<b>0</b>	<b>244,543</b>

## Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings: 46 years for houses and 45 years for flats
- Other Land and Buildings: generally 35 years
- Vehicles, Plant and Equipment: 5 - 20 years
- Infrastructure: 20 - 40 years

## Capital Commitments

At 31 March 2018, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 budgeted to cost £13.071m (£11.598m relates to the construction of a new leisure centre). Similar commitments at 31 March 2017 were £4.856m.

## Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. All valuations were carried out by external valuers. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Formal valuations of vehicles, plant and equipment are not carried out, as such items are carried at historical cost as a proxy for current value.

Significant assumptions applied in estimating current value are:

- that using beacon values for council dwellings represents a fair measure of the values to be used for the entire stock.
- that the Council has made arrangements for the adequate maintenance and repair of its properties.
- that historical cost is a reasonable proxy for the current value of plant, equipment and intangibles.
- that there are no planning proposals that are likely to have an effect on the value of properties.
- that any plant and machinery forming part of a property is included in the valuation.

## Property, Plant and Equipment Revaluations

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Assets under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Carried at historical cost</b>			4,281	4,569	2,783	9,313	116	21,062
<b>Valued at current value as at:</b>								
<b>31/03/2018</b>	208,182	56,406						264,588
<b>Total Cost or Valuation</b>	<b>208,182</b>	<b>56,406</b>	<b>4,281</b>	<b>4,569</b>	<b>2,783</b>	<b>9,313</b>	<b>116</b>	<b>285,650</b>

A new five year contract was awarded in 2017/18 for the undertaking of the Council's asset valuations. In the first year all Council land and building held at current value have been valued to remove any inconsistencies as a result of changing valuers.

### Non-Operational Property, Plant and Equipment (Surplus Assets)

The Council does not have material surplus Assets.

## Note 15 - Investment Properties

The below 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>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>	<b>Investment Property Income and Expenditure</b>	<b>£000</b>
(66)	Rental income from investment property	(139)
49	Direct operating expenses from investment property	64
(4)	Other income and expenditure	(2)
<b>(21)</b>	<b>Net (gain)/loss</b>	<b>(77)</b>

There are no restrictions on 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 disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>Non-Current £000</b>	<b>Investment Properties Movements in Year</b>	<b>Non-Current £000</b>
540	Opening Balance	617
	Additions:	
0	Purchases	1,919
77	Net gains/losses from fair value adjustments	1,700
<b>617</b>	<b>Balance at the end of the year</b>	<b>4,236</b>

The fair value of the Council's investment property is measured annually at each reporting date. All valuations are carried out by the Council's external valuer, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.



## Fair Value Hierarchy

Details of the Council's Investment Property and information about the fair value hierarchy as at 31 March 2018 and 2017 is as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2018
	£000	£000	£000	£000
Commercial units			4,236	4,236
<b>Total</b>	-	-	<b>4,236</b>	<b>4,236</b>

## Comparative Figures

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2017
	£000	£000	£000	£000
Commercial units			617	617
<b>Total</b>	-	-	<b>617</b>	<b>617</b>

## Transfers between Levels of Fair Value Hierarchy

There were no transfers between levels during the year.

## Valuation Techniques used to determine Level 3 Fair Values for Investment Properties

Significant Unobservable Inputs - Level 3:

The commercial units located in the local authority area are measured using the income approach, by means of a discounted cashflow method, where the expected cashflow from the property is discounted (using a market-derived discount rate) to establish the present value of the income stream. The approach has been developed by the Council's valuer using Council data requiring them to factor in assumptions such as the duration and timing of inflows, rent growth, etc.

They are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurement (and there is no reasonably available information that indicated that market participants would use different assumptions).

## Highest and Best Use of Investment Properties

In estimating the fair value of the Council's investment property, the highest and best use of the property is its current and best use.

## Valuation Techniques

There has been no change in the valuation techniques used during the year for investment property.

## Note 16 - Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets relate solely to purchased software licences.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful life assigned to all software licences is five years.

The movement on Intangible Asset balances during the year is as follows:

<b>31st March 2017</b>		<b>31st March 2018</b>
<b>Total</b>		<b>Total</b>
<b>£000</b>		<b>£000</b>
Balance at start of year:		
407	Gross carrying amounts	355
(183)	Accumulated amortisation	(195)
<b>224 Net carrying amount at start of year</b>		<b>160</b>
Additions:		
0	Purchases	70
(52)	Other disposals	0
(64)	Amortisation for the period	(44)
52	Amortisation written off on disposal	0
<b>160 Net carrying amount at end of year</b>		<b>187</b>
Comprising:		
355	Gross carrying amounts	425
(195)	Accumulated amortisation	(238)
<b>160 Total</b>		<b>187</b>

## Note 17 - Financial Instruments

### Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

	Long-term		Current	
	March 2017 £000	March 2018 £000	March 2017 £000	March 2018 £000
<b>Financial assets</b>				
Investments:				
<b>Loans and Receivables</b>				
NatWest / RBS	6,000	2,000	1,000	4,000
Lloyds Banking Group	-	-	8,000	6,000
Santander UK	-	-	8,000	5,000
Barclays	-	-	4,000	1,000
Svenska Handelsbanken	-	-	2,000	-
Qatar National Bank	-	-	8,000	8,000
Close Brothers Limited	4,000	1,000	1,000	7,000
Goldman Sachs International	-	-	8,000	9,000
Nationwide Building Society	-	-	1,000	-
Skipton Building Society	-	-	2,000	4,000
Leeds Building Society	-	-	1,000	-
Coventry Building Society	-	-	-	1,000
Buckinghamshire CC	-	-	-	2,000
<b>Available for sale financial assets</b>				
CCLA property Fund	3,846	4,995	-	-
Accrued interest	-	-	374	316
<b>Total investments</b>	<b>13,846</b>	<b>7,995</b>	<b>44,374</b>	<b>47,316</b>
Debtors	17	23	2,591	1,875
Cash & cash equivalents	-	-	3,475	6,513
<b>Financial liabilities at amortised cost</b>				
Borrowings (all PWLB)	53,180	53,180	-	-
Creditors	-	-	4,848	4,514
<b>Other Liabilities</b>				
Finance Lease Liability	997	1,177	213	205

## Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

March 2017				March 2018			
Fin Liab: measured at amortised cost £000	Fin Assets: Loans and Rec £000	Fin Assets: Available for Sale £000	<b>Total: £000</b>	Fin Liab: measured at amortised cost £000	Fin Assets: Loans and Rec £000	Fin Assets: Available for Sale £000	<b>Total: £000</b>
(1,710)			<b>(1,710)</b>	(1,632)			<b>(1,632)</b>
	608	149	<b>757</b>		489	207	<b>696</b>
		<b>(154)</b>	<b>(154)</b>			(5)	<b>(5)</b>
<b>(1,710)</b>	<b>608</b>	<b>(5)</b>	<b>(1,107)</b>	<b>(1,632)</b>	<b>489</b>	<b>202</b>	<b>(941)</b>
			<b>Net gain/(loss) for the year</b>				

## Fair value of financial assets

Some of the Council's financial assets are measured in the balance sheet at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Recurring Fair Value Measurements	Input Level In Fair Value Hierarchy	Valuation technique used to measure Fair Value	31 March 2017 Fair Value £000	31 March 2018 Fair Value £000
Available for Sale - CCLA	Level 1	Unadjusted quoted prices in active markets for identical shares	3,889	5,047
		<b>Total:</b>	<b>3,889</b>	<b>5,047</b>

## Fair value of assets and liabilities

Financial liabilities (PWLB), financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Available for Sale financial assets are carried at fair value - the price that would be received or paid in an orderly transaction between market participants at the measurement date.

The fair values calculated are as follows:

	31 March 2017		31 March 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities (PWLB loans)	53,197	69,845	53,197	68,598
Long-term creditors	-	-	-	-
Other Liabilities	1,210	1,210	1,382	1,382
Loans and receivables	56,973	57,090	55,995	56,023
Available for sale financial assets	3,889	3,889	5,047	5,047
Long-term debtors	17	17	23	23

- The fair value of the PWLB loans (£69 million) is calculated using the premature repayment method as at the 31 March 2018 inclusive. (Level 2)
- The fair value of the loans and receivables is calculated by reference to prevailing benchmark market rates. (Level 2)
- The fair value of the available for sales financial assets is calculated using the unadjusted quoted prices in active markets for identical shares. (Level 1)
- For a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

## Nature and extent of risks arising from financial instruments

The Council's activities expose it to a variety of financial risks:

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

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

## Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The risk is minimised through the Annual Investment Strategy, and amendments to this, which requires that the Council only has deposits with Financial Institutions, who have minimum Fitch rating (Moody's or S&P equivalent) of: Long-term "A-"; (with the exception of part nationalised institutions BBB-); Short-term "F1" (part nationalised F3); Money Market Funds which have been rated "AAA", mmf or equivalent and are stable NAV, Building societies with Assets greater than £10 billion and other local authorities.

To date, the Council has not experienced any losses from non-performance by any of its counter parties in relation to its investments and none are currently anticipated in the coming reporting period.

Customers are not assessed for credit-worthiness, financial position or past experience unless in connection with tendering for service contracts. However, the Council operates an active debt recovery process to ensure the collection of all sums due to the council and the targeting of customers who may require assistance by way of extended terms for repayment of debt.

The Council's maximum exposure to credit risk in relation to its investments in banks and financial institutions of £60.7 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2018 that this was likely to materialise. The following analysis summarises the risk categories of the Council's financial assets at 31 March 2018

### Amount at 31 March 2018

	£000
Deposits with financial institutions:	
AAA rated counterparties	5,730
AA rated counterparties	-
A rated counterparties	37,000
Local Authorities	2,000
Part Nationalised Banks	6,000
Building Societies with assets greater than £10 Billion	5,000
Unrated pooled Funds	5,000
<b>Total</b>	<b>60,730</b>

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counter-parties in relation to deposits.

The Council does not generally allow credit for customers, such that £480k of the £1.875 million balance is past its due date for payment. (This excludes housing rent arrears, where an aged debt analysis is not available). The past due but not impaired amount of other debts can be analysed by age as follows:

	<b>31 March 2017</b>	<b>31 March 2018</b>
	<b>£000</b>	<b>£000</b>
Less than three months	34	159
Three to nine months	221	84
Nine months to one year	37	100
More than one year	144	137
<b>Total</b>	<b>436</b>	<b>480</b>

## Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The risk that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates is mitigated by the borrowings being solely for the purpose of HRA self-financing, with the repayment of the debt linked to the HRA business plan. Any further borrowing whether HRA or General Fund, will be subject to a rigorous assessment of affordability.

	<b>31 March 2017</b>	<b>31 March 2018</b>
	<b>£000</b>	<b>£000</b>
Less than one year	-	-
Between one and two years	-	8,860
Between two and five years	17,720	8,860
Between six and ten years	-	-
Between eleven and twenty years	17,740	17,740
More than twenty years	17,720	17,720
<b>Total</b>	<b>53,180</b>	<b>53,180</b>

All trade and other payables are due to be paid in less than one year.

## Market Risk

*Interest Rates Risk.* The Council's borrowings are 100% fixed rate and are therefore not subject to fluctuations in interest rates. All investments are cash. Generally investments are at a fixed rate, but to ensure stability and liquidity, Money Market Funds, structured products where there is an interest rate floor and cap or annual rate change, and notice accounts for notice periods of 32, 35 and 95 days are also used. The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the annual budget. Estimates for interest receivable are updated during the year as an integral part of the

budget monitoring and planning process. This allows adverse changes to be identified at various times and accommodated within the budget. According to this assessment strategy, at 31 March 2018, if interest rates had been 1% higher with all other variables held constant, the financial effect would be an increase in interest receivable on variable rate investments of £60k.

*Price Risk.* The Council does not invest in equity shares so it is not exposed to losses arising from movements in the prices of shares.

*Foreign Exchange Risk.* The Council has no financial assets or liabilities denominated in foreign currencies and therefore have no exposure to losses arising from movements in exchange rates.

## Note 18 - Debtors

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
252	Central Government Bodies	1,859
344	Other Local Authorities	607
3,303	Other Entities and Individuals	2,798
<b>3,898</b>	<b>Total Debtors</b>	<b>5,263</b>

## Note 19 - Cash and Cash Equivalents

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
833	Cash and Bank balances	781
2,642	Short Term Investments	5,732
<b>3,475</b>	<b>Total Cash and Cash Equivalents</b>	<b>6,513</b>

## Note 20 - Assets Held for Sale

<b>Current</b>		<b>Current</b>
<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
0	Balance outstanding at start of year	0
	Assets newly classified as held for sale:	
1,650	- Property Plant and Equipment	1,320
(1,650)	Assets sold	(1,320)
<b>0</b>	<b>Balance Outstanding year end</b>	<b>0</b>



## Note 21 - Creditors

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(3,981)	Central Government Bodies	(4,631)
(3,792)	Other Local Authorities	(2,613)
(5,746)	Other Entities and Individuals	(5,625)
<b>(13,519)</b>	<b>Total Creditors</b>	<b>(12,870)</b>

## Note 21A - Long Term Creditors

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(2,641)	s.106 1990 Town & Country Planning Act	(7,600)
<b>(2,641)</b>	<b>Total Long Term Creditors</b>	<b>(7,600)</b>

The authority receives contributions from developers under the provisions of Section 106 of the 1990 Town and Country Planning Act. Unspent amounts from these contributions are shown as long-term creditors and as short-term creditors. The classification of liability is based upon the repayment terms contained within the planning agreement with each developer.

## Note 22 - Provisions

### Current Provisions

<b>2017/18</b>	<b>Total</b>
	<b>£000</b>
Opening Balance	(2,006)
Increase in provision during year	(1,832)
Utilised during year	2,128
<b>Closing Balance</b>	<b>(1,710)</b>

<b>2016/17</b>	<b>Total</b>
	<b>£000</b>
Opening Balance	(2,101)
Increase in provision during year	(513)
Utilised during year	608
<b>Closing Balance</b>	<b>(2,006)</b>

Following the introduction of the Business Rate Retention scheme the Council has assumed responsibility for a share of the cost of any refunds resulting from successful appeals by local businesses against the rateable value of their premises. The provision of £1.710 million represents the Council's share of the estimated amounts which will be refunded in respect of a) business rate liability for 2016/17 and earlier years resulting from successful appeals (2010 rating list) and b) business rate liability for 2017/18 resulting from the "Check, Challenge, Appeal" process (2017 rating list)."

## Note 23 - Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

## Note 24 - Unusable Reserves

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(25,216)	Revaluation Reserve	(29,972)
154	Available for Sale Financial Instruments Reserve	5
(183,138)	Capital Adjustment Account	(208,293)
27,159	Pension Reserve	21,595
(1,001)	Collection Fund Adjustment Account	(309)
133	Accumulated Absences Account	133
<b>(181,909)</b>	<b>Total</b>	<b>(216,841)</b>

### Revaluation Reserve

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(25,950)	<b>Balance 1 April</b>	(25,216)
(2,488)	Upward revaluation of assets	(6,631)
2,743	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	1,231
<b>255</b>	<b>Surplus or deficit on revaluation of non-current assets not charged to the Surplus or Deficit on the Provision of Services</b>	<b>(5,400)</b>
370	Difference between fair value depreciation and historical cost depreciation	579
109	Accumulated gains on assets sold or scrapped	66
<b>479</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>644</b>
<b>(25,216)</b>	<b>Balance 31 March</b>	<b>(29,972)</b>

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and intangible assets. 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, or
- disposed of and the 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 balance on the Capital Adjustment Account.

#### Available for Sale Financial Instruments Reserve

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
0	Balance 1 April	154
0	Upward revaluation of investments	(148)
154	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	0
<b>154</b>	<b>Balance 31 March</b>	<b>5</b>

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

**Capital Adjustment Account**

<b>31 March 2017</b> <b>£000</b>		<b>31 March 2018</b> <b>£000</b>
(165,267)	<b>Balance 1 April</b>	(183,138)
4,411	Charges for depreciation and impairment of non-current assets	5,467
(16,195)	Revaluation losses on non-current assets	(12,754)
64	Amortisation of intangible assets	44
599	Revenue expenditure funded from capital under statute	734
1,905	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	1,912
(9,217)	Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	(4,597)
(479)	Adjusting Amounts written out of the Revaluation Reserve	(644)
(9,696)	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	(5,242)
(1,299)	Use of Capital Receipts Reserve to finance new capital expenditure	(10,425)
(2,555)	Use of Major Repairs Reserve to finance new capital expenditure	(2,861)
(659)	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(734)
(42)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(199)
0	Capital expenditure charged against the General Fund and HRA balances	(450)
(4,555)	<b>Capital financing applied in year:</b>	(14,669)
(3,544)	Borrowing or liabilities met from the Major Repairs Reserve	(3,544)
(77)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,700)
<b>(183,138)</b>	<b>Balance 31 March</b>	<b>(208,293)</b>

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 the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and 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 subsequent costs.

The Account contains accumulated gains and losses on Investment Properties and also revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 9 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

### Pension Reserve

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
28,266	Balance 1 April	27,159
(402)	Remeasurements of the net defined benefit (liability)/asset	(7,223)
2,801	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	5,560
(3,505)	Employer's pensions contributions and direct payments to pensioners payable in the year	(3,901)
<b>27,159</b>	<b>Balance 31 March</b>	<b>21,595</b>

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 the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall 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.

### Collection Fund Adjustment Account

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
1,443	Balance 1 April	(1,001)
(2,444)	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	691
<b>(1,001)</b>	<b>Balance 31 March</b>	<b>(309)</b>

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

### Accumulated Absences Account

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
133	<b>Balance 1 April</b>	133
(133)	Settlement or cancellation of accrual made at the end of the preceding year	(133)
133	Amounts accrued at the end of the current year	133
0	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	0
<b>133</b>	<b>Balance 31 March</b>	<b>133</b>

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, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account. There were no changes to the account in 2017/18.

## Note 25 - Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(1,100)	Interest received	(1,290)
1,691	Interest paid	1,652
0	Dividends received	0
<b>591</b>	<b>Total</b>	<b>362</b>

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(4,411)	Depreciation	(5,467)
16,195	Impairment and downward valuations	12,754
(64)	Amortisation	(44)
0	(Increase)/decrease in impairment for bad debts	0
(3,373)	(Increase)/decrease in creditors	(4,701)
496	Increase/(decrease) in debtors	96
(8)	Increase/(decrease) in inventories	0
704	Movement in pension liability	(1,659)
(1,905)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(1,912)
171	Other non-cash movements charged to the surplus or deficit on provision of services	1,997
<b>7,807</b>	<b>Total</b>	<b>1,065</b>

The surplus or deficit on the provision of services has been adjusted for the following items which are investing and financing activities:

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
0	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	0
3,063	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,643
0	Any other items for which the cash effects are investing or financing cash flows	0
<b>3,063</b>	<b>Total</b>	<b>2,643</b>



## Note 26 - Cash Flow from Investing Activities

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
4,815	Purchase of property, plant and equipment, investment property and intangible assets	14,900
13,000	Purchase of short-term and long-term investments	10,000
0	Other payments for investing activities	0
(3,063)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,643)
(9,000)	Proceeds from short-term and long-term investments	(13,000)
(665)	Other receipts from investing activities	(819)
<b>5,086</b>	<b>Net cash flows from investing activities</b>	<b>8,439</b>

## Note 27 - Cash Flow from Financing Activities

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
0	Cash receipts of short-term and long-term borrowing	0
0	Other receipts from financing activities	0
42	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts	199
8,860	Repayments of short-term and long-term borrowing	0
(3,549)	Other payments for financing activities	2,777
<b>5,352</b>	<b>Net cash flows from financing activities</b>	<b>2,976</b>

## Note 28 - Agency Services

The Council provided the following agency services in 2017/18:

- Collection of car park income for West Sussex County Council (£836k) and other third parties (£95k).
- Provision of a payroll service for a number of voluntary organisations and four Parish Councils (no charge is made for this service).

## Note 29 - Members' Allowances

The Council paid the following amounts to/for members of the council during the year:

<b>31 March 2017</b>		<b>31 March 2018</b>	
<b>£000</b>		<b>£000</b>	
421	Allowances	420	
15	Expenses	11	
436	<b>Total Members' Allowances</b>	431	

## Note 30 - Officers' Remuneration

### Senior Officer Remuneration

2017/18		Salary, Fees and Allowances	Expenses Allowances	Compensation for Loss of Office	Pension Contribution	Total
		£'000	£'000	£'000	£'000	£'000
Chief Executive	2017/18	118	-	-	24	142
	2016/17	114	-	-	24	138
Resources Director & Deputy CEO	2017/18	-	-	-	4	4
	2016/17	74	-	104	15	193
Director of Place	2017/18	90	-	-	16	106
	2016/17	80	-	-	17	97
Director of Transformation	2017/18	39	-	107	71	217
	2016/17	81	-	-	17	98
Director of Services	2017/18	90	-	-	16	106
	2016/17	81	-	-	17	98
Head of Finance & Property & S151 Officer	2017/18	-	-	-	-	-
	2016/17	68	1	-	14	83
Head of Housing	2017/18	29	1	83	35	148
	2016/17	66	2	-	13	81
Head of Human Resources & Customer Services	2017/18	-	-	-	-	-
	2016/17	65	1	-	14	80
Head of Legal & Administration	2017/18	33	1	58	7	99
	2016/17	67	1	-	14	82
Head of Neighbourhoods	2017/18	-	-	-	97	97
	2016/17	65	2	76	13	156
Group Head - Policy	2017/18	67	-	-	12	79
	2016/17	-	-	-	-	-

<b>Group Head - Council Advice &amp; Monitoring Officer</b>	<b>2017/18</b>	61	-	-	11	<b>72</b>
	<b>2016/17</b>	-	-	-	-	-
<b>Group Head - Corporate Support &amp; S151 Officer</b>	<b>2017/18</b>	74	-	-	13	<b>87</b>
	<b>2016/17</b>	-	-	-	-	-
<b>Group Head - Planning</b>	<b>2017/18</b>	61	-	-	11	<b>72</b>
	<b>2016/17</b>	-	-	-	-	-
<b>Group Head - Technical Services</b>	<b>2017/18</b>	67	-	-	12	<b>79</b>
	<b>2016/17</b>	-	-	-	-	-
<b>Group Head - Economy</b>	<b>2017/18</b>	61	-	-	11	<b>72</b>
	<b>2016/17</b>	-	-	-	-	-
<b>Group Head - Community Wellbeing</b>	<b>2017/18</b>	67	-	-	12	<b>79</b>
	<b>2016/17</b>	-	-	-	-	-
<b>Group Head - Residential Services</b>	<b>2017/18</b>	41	-	-	7	<b>48</b>
	<b>2016/17</b>	-	-	-	-	-
<b>Group Head - Neighbourhood Services</b>	<b>2017/18</b>	68	-	-	12	<b>80</b>
	<b>2016/17</b>	-	-	-	-	-
<b>Total</b>	<b>2017/18</b>	<b>966</b>	<b>2</b>	<b>248</b>	<b>371</b>	<b>1,587</b>
	<b>2016/17</b>	<b>761</b>	<b>7</b>	<b>180</b>	<b>158</b>	<b>1,106</b>

In April 2017 Heads of Service posts were deleted and nine new Group Head posts were created as above. The figures above for Head of Housing, Head of Legal & Administration and Group Head of Residential Services are pro-rata due to the transition period.

Three Senior Officers were in receipt of compensation for loss of office in 2017/18, of which accruals were made in the 2016/17 accounts for the Head of Housing & Head of Legal & Administration.

The Pension Contribution in 2017/18 includes the additional pension strain due to loss of office for five Senior Officers, of which the compensation for loss of office was disclosed for two Senior Officers in 2016/17.

Please note that the Pension Contribution figures have been amended for 2016/17 and consequently the total has been corrected.

No Senior Officers were in receipt of bonus payments or benefits in kind for 2017/18.

**Officer Remuneration (continued)**

The Council's employees receiving more than £50,000 (annualised) remuneration for the year (excluding employer's pension contributions), excluding the Senior Officers disclosed above (N.B. 2016/17 figures have been adjusted to remove Senior Officers for consistency):

	<b>2016/17</b>	<b>2017/18</b>
£50,001 to £55,000	5	9
£55,001 to £60,000	3	5 * **
£60,001 to £65,000	0	0
£65,001 to £70,000	0	2
£70,001 to £75,000	0	0
£75,001 to £80,000	0	4
£80,001 to £85,000	0	0
£85,001 to £90,000	0	0
£90,001 to £95,000	0	1
£95,001 to £100,000	0	0
£100,001 to £105,000	0	0
£105,001 to £110,000	0	0
£110,001 to £115,000	0	0
£115,001 to £120,000	1	0
<b>Total</b>	<b>9</b>	<b>21</b>

**2017/18**

- A total of twelve employees included by virtue of redundancy pay

\* One employee included by virtue of annualised salary

\*\* Two employees included by virtue of annualised salary and redundancy pay

## Exit Packages

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band £000	
	16/17	17/18	16/17	17/18	16/17	17/18	16/17	17/18
£0-£20,000 * **	1	6	0	0	1	6	17	63
£20,001-£40,000 **	0	8	0	0	0	8	0	246
£40,000-£60,000	1	3	0	0	1	3	54	149
£60,001-£80,000	2	2	0	0	2	2	138	131
£80,001-£100,000 **	1	2	0	0	1	2	82	182
£100,001-£150,000	1	0	0	0	1	0	104	0
£150,001-£200,000	0	1	0	0	0	1	0	171
<b>Total</b>	<b>6</b>	<b>22</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>22</b>	<b>395</b>	<b>942</b>

The total cost of £942,000 in the table above includes exit packages that have been charged to the Council's Comprehensive Income & Expenditure Statement in 2017/18 excluding accruals made for redundancies & disclosed in 2016/17. Also included is the 2016/17 & 2017/18 related pension strain.

\* One Senior Officer is included in the banding £0-£20,000 by virtue of additional redundancy payment to the 2016/17 disclosure.

\*\* Four Officers are included by virtue of pension strain only, where the redundancy was disclosed in 2016/17

## Note 31 - External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts:

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
	<i>Fees payable to Ernst &amp; Young LLP</i>	
59	external audit services carried out by the appointed auditor	57
7	certification of grant claims and returns	8
<b>66</b>	<b>Total</b>	<b>65</b>

## Note 32 - Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement. This analysis reveals the effect of reclassification of grants to reflect changing government funding methodology and priorities.

### Grant Income Credited to Taxation and non-specific Grant Income and Expenditure

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(1,666)	Revenue Support Grant	(750)
(524)	Benefits Administration Grant	(484)
(198)	Localised Council Tax Support Administration	(192)
(177)	Business Rate Collection Allowance	(186)
(4,014)	New Homes Bonus Grant	(3,677)
(849)	S.31 grants paid to compensate for the loss of business rate income	(1,735)
(79)	Individual Electoral Register (IER)	(59)
(261)	Other Non-Ringfenced Grants	(282)
0	Homeless Reduction	(80)
(61)	Capital Grants and Contributions	0
<b>(7,829)</b>	<b>Total</b>	<b>(7,446)</b>

## Credited to Services

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(405)	Community wellbeing	(399)
(110)	Coast Protection	-
(39)	Land Drainage	-
(706)	Housing Strategy	-
(119)	Crime Reduction	(95)
(122)	Leisure	(636)
(599)	Disabled Facilities Grants	(752)
(128)	Economic Regeneration	(803)
(234)	Family Intervention project	(181)
(1)	Fuel poverty	(5)
(49,739)	Housing Benefit Subsidy	(48,819)
-	- Neighbourhood Plan	(40)
-	- Homelessness	(304)
-	- Elections	(330)
(417)	Other	(329)
<b>(52,619)</b>	<b>Total</b>	<b>(52,693)</b>

## Grants Receipts in Advance (Capital Grants) - Current Liabilities

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(665)	Disabled Facility Grant	(1,484)
<b>(665)</b>	<b>Total</b>	<b>(1,484)</b>



## Note 33 - 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 allow 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

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). Grants received from Government Departments are set out in Note 13. Grant receipts outstanding at 31 March 2018 are shown in Note 18 (Central Government bodies).

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2017/18 is shown in Note 29. No members declared any transactions for 2017/18 that fall within the related party definition.

### Officers

The Council's Chief Executive has £4k outstanding in respect of a car loan. Repayments amounting to £2k were made during 2017/18. No other transactions with senior officers fall within the related party definition.

### Other Public Bodies

Precepts and levies totalling £4.206 million were paid as disclosed in Note 11.

### Entities Controlled or Significantly Influenced by the Council

There are no entities meeting the definition of related parties.

## Note 34 - Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), 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.

### Capital Expenditure and Capital Financing

31 March 2017 £000		31 March 2018 £000
54,090	Opening Capital Financing Requirement	52,837
	Capital Investment:	
6,247	Property Plant and Equipment	14,460
0	Investment Property	1,919
0	Intangible Assets	70
599	Revenue Expenditure Funded from Capital Under Statute	734
<b>6,846</b>	<b>Total Capital Spending</b>	<b>17,183</b>
	Sources of Finance:	
(1,299)	Capital receipts	(10,425)
(659)	Government Grants and other contributions	(734)
(2,555)	Major repairs reserve	(2,861)
	Sums set aside from revenue:	
0	- Direct revenue contributions	(450)
(3,544)	- Borrowing or liabilities met from the Major Repairs Reserve	(3,544)
(42)	- Minimum revenue provision	(199)
<b>(8,099)</b>	<b>Total Sources of Finance</b>	<b>(18,213)</b>
<b>52,837</b>	<b>Closing Capital Financing Requirement</b>	<b>51,807</b>

### Explanation of movements in year

31 March 2017 £000		31 March 2018 £000
1,081	Increase in underlying need to borrow (unsupported by government financial assistance)	2,340
1,251	Assets acquired under finance leases	372
(3,586)	Other movements	(3,743)
<b>(1,253)</b>	<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(1,030)</b>

## Note 35 - Leases

### Council as Lessee

#### Finance Leases

In 2016/17 a new Grounds Maintenance Contract and Combined Cleansing Contract was entered into. Under IFRIC 4 'Determining Whether an Arrangement Contains a Lease' it has been deemed that both contracts contain finance leases relating to provision of vehicles. The Council therefore has to recognise these assets in its own Balance Sheet together with a liability for a Finance Lease.

The assets acquired under these leases are carried as property, plant and equipment in the Balance Sheet at the following net amounts:

<b>31 Mar 2017</b>	<b>31 Mar 2018</b>
<b>£000</b>	<b>£000</b>
1,207 Vehicles, Plant & Equipment	1,366
<b>1,207 Total</b>	<b>1,366</b>

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

<b>31 Mar 2017</b>	<b>31 Mar 2018</b>
<b>£000</b>	<b>£000</b>
Finance lease liabilities (net present value of minimum lease payments):	
213 current	205
997 non-current	1,177
105 Finance costs payable in future years	121
<b>1,315 Minimum lease payments</b>	<b>1,503</b>

The minimum lease payments will be payable over the following periods:

<b>Minimum Lease Payments</b>			<b>Finance Lease Liabilities</b>	
<b>31 Mar 2017</b>	<b>31 Mar 2018</b>		<b>31 Mar 2017</b>	<b>31 Mar 2018</b>
<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>
235	235	Not later than one year	213	205
634	916	Later than one year and not later than five years	577	843
446	352	Later than five years	419	334
<b>1,315</b>	<b>1,503</b>	<b>Total</b>	<b>1,209</b>	<b>1,382</b>

### Operating Leases

The Council has operating leases for: open spaces; photocopiers; and general light vehicles.

The total future minimum lease payments due under non-cancellable leases in future years are:

<b>31 Mar 2017</b>		<b>31 Mar 2018</b>
<b>£000</b>		<b>£000</b>
87	Not later than one year	90
257	Later than one year and not later than five years	241
28	Later than five years	28
<b>372</b>	<b>Total</b>	<b>359</b>

The expenditure charged to the Comprehensive Income and Expenditure Statement in relation to these leases in 2017/18 was £100k (2016/17 £117k) representing the value of the minimum lease payments.

### Council as Lessor

#### Finance Leases

The Council has no currently determined finance leases as lessor.

#### Operating Leases

The Council leases out various property assets under operating leases either for investment or as a temporary means of generating rental income pending future development.

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

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
429	Not later than one year	835
1,290	Later than one year and not later than five years	2,549
8,462	Later than five years	9,358
<b>10,181 Total</b>		<b>12,742</b>

The lease payments receivable include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. Separate figures for contingent rents are not available.

### Note 36 - Impairment Losses

There were no material impairment losses during 2017/18.

### Note 37 - Termination Benefits

The Council terminated the contracts of a number of employees in 2017/18 as part of the process of achieving required budget savings, incurring redundancy liabilities of £772k. Payments were made against the 2016/17 provision of £153k and a further liability amounting to £619k was incurred in 2017/18. Total liabilities include additional pension strain of £221k. See Note 30 for the number of exit packages and the total cost per band.

## Note 38 - Defined Benefit Pension Scheme

### Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by West Sussex County Council - this is a funded defined benefits scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities and cash has to be generated to meet actual pensions payments as they eventually fall due.
- The West Sussex County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Panel of West Sussex County Council. Policy is determined in accordance with the Pensions Fund Regulations. The Pensions Panel is responsible to the Governance Committee for the appointment of professional and specialist investment advisers and managers on a consultancy basis.
- The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

### Discretionary Post-retirement Benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

## Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is 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 and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government		Discretionary	
	Pension Scheme		Benefits arrangements	
	2016/17	2017/18	2016/17	2017/18
	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement -</b>				
<b>Cost of services:</b>				
Service cost comprising:				
* current service cost	2,687	4,290	-	-
* past service costs (including curtailments)	-	550	-	-
* (gain)/loss from settlements	(832)	-	-	-
Financing and Investment Income and Expenditure:				
* Net interest expense	946	720	-	-
Total Post Employment Benefit charged to the	<b>2,801</b>	<b>5,560</b>	-	-
Surplus or Deficit on the Provision of Services				
Other Post Employment Benefit charged to the				
Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
* Return on plan assets (excluding the amount included the net interest expense)	(31,386)	(4,333)	-	-
* Actuarial gains and losses arising on changes in demographic assumptions	(4,588)	-	-	-
* Actuarial gains and losses arising on changes in financial assumptions	25,771	(2,953)	-	-
* Other experience	9,891	158	(94)	(242)
Total Post Employment Benefit charged to the	<b>2,489</b>	<b>(1,568)</b>	<b>(94)</b>	<b>(242)</b>
Comprehensive Income and Expenditure Statement				
<b>Movement in Reserves Statement</b>				
reversal of net charges made to the Surplus or deficit on				
* the Provision of Services for post-employment benefits in accordance with the Code	2,801	5,560	-	-
Actual amount charged against the General Fund Balance				
for pensions in the year:				
* employer's contributions payable to scheme	3,234	3,500	-	-
* retirement benefits payable to pensioners	-	-	272	254

## 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 scheme is as follows:

	Local Government Pension Scheme		Discretionary Benefits	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Present value of the defined benefit obligation	(172,923)	(175,099)	(4,588)	(4,346)
Fair value of plan assets	150,352	157,850	-	-
<b>Net liability arising from defined benefit obligation</b>	<b>(22,571)</b>	<b>(17,249)</b>	<b>(4,588)</b>	<b>(4,346)</b>

### Reconciliation of the movements in the fair value of scheme assets

	Local Government Pension Scheme		Discretionary Benefits	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Opening fair value of scheme assets	119,471	150,352	-	-
Interest income	4,044	3,897	-	-
Remeasurement gain/(loss):				
Return on plan assets excluding the amount included in the net interest expense	31,386	4,333	-	-
Other	-	-	-	-
Contributions from employer	3,230	3,500	272	254
Contributions from employees into the scheme	691	698	-	-
Benefits paid	(5,311)	(4,930)	(272)	(254)
Other	(3,159)	-	-	-
<b>Closing fair value of scheme assets</b>	<b>150,352</b>	<b>157,850</b>	<b>-</b>	<b>-</b>



**Reconciliation of present value of the scheme liabilities (Defined Benefit Obligation)**

	<b>Funded liabilities</b>		<b>Unfunded liabilities</b>	
	<b>Local Government</b>		<b>Discretionary</b>	
	<b>Pension Scheme</b>		<b>Benefits</b>	
	<b>2016/17</b>	<b>2017/18</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Opening balance at 1 April	143,055	172,923	4,682	4,588
Current service cost	2,687	4,290	-	-
Interest cost	4,990	4,617	-	-
Contributions by scheme participants	691	698	-	-
Remeasurement (gains) and losses:				
Actuarial gains/losses arising from changes in demographic assumptions	(4,588)	-	-	-
Actuarial gains/losses arising from changes in financial assumptions	25,771	(2,953)	-	-
Other	9,619	(96)	178	12
Past service cost	-	550	-	-
Benefits paid	(5,311)	(4,930)	(272)	(254)
Other	(3,991)	-	-	-
<b>Closing balance at 31 March</b>	<b>172,923</b>	<b>175,099</b>	<b>4,588</b>	<b>4,346</b>

**Local Government Pension Scheme assets comprised:**

	<b>Fair value of scheme assets</b>	<b>Fair value of scheme assets</b>
	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
<b>Cash and cash equivalents</b>	3,870	4,062
<b>Equity securities by industry type:</b>		
Consumer	21,389	22,456
Manufacturing	13,742	14,428
Energy and utilities	7,261	7,623
Financial institutions	24,489	25,710
Health and care	10,418	10,937
Information technology	20,546	21,571
Other	6,927	7,273
<b>Debt securities:</b>		
UK Government	2,788	2,927
<b>Private Equity - All categories</b>	6,463	6,786
<b>Real estate:</b>		
UK property	11,857	12,448
Overseas property	-	-
<b>Investment funds and unit trusts:</b>		
Equities	-	-
Bonds	18,840	19,779
Other	1,762	1,850
<b>Totals</b>	<b>150,352</b>	<b>157,850</b>

All scheme assets have quoted prices in active markets except private equity

## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The West Sussex County Council Fund liabilities have been assessed by Humans Robertson, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 1 April 2016. The principal assumptions used in their calculations have been:

	Local Government		Discretionary	
	Pension Scheme		Benefits	
	2016/17	2017/18	2016/17	2017/18
<b>Long-term expected rate of return on assets in the scheme:</b>				
Equity investments	19.6%	5.5%	-	-
Bonds	19.6%	5.5%	-	-
Property	19.6%	5.5%	-	-
Cash	19.6%	5.5%	-	-
Mortality assumptions:				
Longevity at 65 for current pensioners:				
* Men		23.6 years		23.6 years
* Women		25.0 years		25.0 years
Longevity at 65 for future pensioners:				
* Men		26.0 years		26.0 years
* Women		27.8 years		27.8 years
Rate of inflation		3.4%		3.4%
Rate of increase in salaries		3.1%		3.1%
Rate of increase in pensions (CPI)		2.4%		2.4%
Rate for discounting scheme liabilities		2.7%		2.7%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably 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 the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for both men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

#### Change in assumptions at 31 March 2018

	Approx. % increase to employer liability	Approx. monetary amount (£000)
0.5% decrease in Real Discount Rate	9.0%	15,847
0.5% increase in the Salary Increase Rate	1.0%	2,360
0.5% increase in the Pension Increase Rate	7.0%	13,272

#### Impact on the Council's cash flows

The objectives of the scheme are to keep employers' contributions as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2015. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council expects to pay £3.350 million for employer contributions to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 17.4 years for 2017/18.

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 eventually 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 [and Housing Revenue Account] via the Movement in Reserves Statement. The transactions in the preceding table have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

The table above shows the amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans.

### **Note 39 - Contingent Liabilities**

The Council has given guarantees, relating to potential West Sussex County council Pension Fund liabilities, in respect of two contracts for outsourced services. The value of these commitments is dependent on a number of factors including actuarial assessment of the pension fund and the Council's future plans for the delivery of the relevant services.

The Council has entered into an agreement with the Government to retain the additional receipts generated by the relaxation of the Right to Buy discount rules. Under the terms of this agreement these "1 for 1 replacement" receipts can only be used for the provision of new social housing, and the Council must match every £30 of receipts used with £70 of its own funding. A further condition of the agreement is that receipts must be spent within three years, failing which they must be returned to the Government plus interest at 4% above base rate. As at 31 March 2018 the Council held £3.028m of unused "1 for 1 replacement" receipts. However, one of the approved priorities of the Council's Housing Revenue Account Business plan is a significant new development programme and the implementation of this programme should ensure that the unused "1 for 1 replacement" receipts are spent within the required time-scale.

## Housing Revenue Account Income and Expenditure Statement

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
	<b>Expenditure</b>	
4,228	Repairs & Maintenance	4,485
4,292	Supervision & Management	4,433
155	Rents, Rates, Taxes and other charges	177
(13,486)	Depreciation, impairments and revaluation losses of non-current assets	(10,292)
98	Movement in the allowance for bad debts	27
<b>(4,714)</b>	<b>Total Expenditure</b>	<b>(1,170)</b>
	<b>Income</b>	
(15,756)	Dwelling rents	(15,511)
(399)	Non-dwelling rents	(431)
(820)	Charges for services and facilities	(639)
(176)	Other	0
<b>(17,150)</b>	<b>Total Income</b>	<b>(16,580)</b>
<b>(21,864)</b>	<b>Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement</b>	<b>(17,751)</b>
(1,164)	(Gains)/loss on sale of HRA Fixed Assets	(762)
1,705	Interest Payable and Similar Charges	1,596
(108)	HRA Interest and Investment Income	(50)
<b>(21,430)</b>	<b>(Surplus) or Deficit for Year on HRA Services</b>	<b>(16,966)</b>

## Movement on the HRA Statement

31 March 2017 £000	Movement on the HRA Statement	31 March 2018 £000
(6,903)	Balance on the HRA at the end of the previous year	(6,988)
(21,430)	(Surplus) or Deficit on the HRA Income and Expenditure Statement	(16,966)
21,345	Adjustments between accounting basis and funding basis under statute	17,328
(85)	Net (increase) or decrease before transfers to or from reserves	363
0	Transfer to/(from) reserves	0
(85)	(Increase) or decrease on the HRA for the year	363
<b>(6,988)</b>	<b>Balance on the HRA at the end of the current year</b>	<b>(6,625)</b>

31 March 2017 £000	Adjustment between accounting basis	31 March 2018 £000
13,486	Transfers to/(from) the Capital Adjustment Account	10,292
1,164	Gain or (loss) on sale of non-current assets	762
116	Contributions to or (from) the Pension Reserve	49
6,579	Transfers to/(from) Major Repairs Reserve	6,226
<b>21,345</b>	<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>	<b>17,329</b>

## HRA Property, Plant and Equipment

### Movements to 31 March 2018

	Council Dwellings	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>					
<b>at 1 April 2017</b>	195,462	3,562	1,477	1,250	<b>201,750</b>
Additions	2,684	0	550	2,993	<b>6,226</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(9)	0	0	<b>(9)</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	10,177	213	0	0	<b>10,390</b>
Derecognition – other	(376)	0	0	0	<b>(376)</b>
Reclassifications and transfers	1,555	0	0	(1,555)	<b>0</b>
Assets reclassified (to)/from Held for Sale	(1,320)	0	0	0	<b>(1,320)</b>
<b>at 31 March 2018</b>	<b>208,182</b>	<b>3,766</b>	<b>2,027</b>	<b>2,687</b>	<b>216,662</b>
<b>Accumulated Depreciation and Impairment</b>					
<b>at 1 April 2017</b>	0	0	(95)	0	<b>(95)</b>
Depreciation charge	(3,613)	(39)	(74)	0	<b>(3,726)</b>
Depreciation written out to the Revaluation Reserve	0	6	0	0	<b>6</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,613	33	0	0	<b>3,646</b>
Derecognition – other	0	0	0	0	<b>0</b>
<b>at 31 March 2018</b>	<b>0</b>	<b>0</b>	<b>(169)</b>	<b>0</b>	<b>(169)</b>
<b>Net Book Value</b>					
<b>at 31 March 2018</b>	<b>208,182</b>	<b>3,766</b>	<b>1,859</b>	<b>2,687</b>	<b>216,494</b>
<b>at 31 March 2017</b>	<b>195,462</b>	<b>3,562</b>	<b>1,383</b>	<b>1,250</b>	<b>201,656</b>



**Movements to 31 March 2017**

	<b>Council Dwellings</b>	<b>Land and Buildings</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Assets Under Construction</b>	<b>Total Property, Plant and Equipment</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>					
<b>at 1 April 2016</b>	181,296	3,378	1,070	0	<b>185,744</b>
Additions	2,542	0	430	1,250	<b>4,221</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	39	0	0	<b>39</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	13,370	144	0	0	<b>13,514</b>
Derecognition – other	(97)	0	(22)	0	<b>(119)</b>
Reclassifications and transfers	0	0	0	0	<b>0</b>
Assets reclassified (to)/from Held for Sale	(1,650)	0	0	0	<b>(1,650)</b>
<b>at 31 March 2017</b>	<b>195,462</b>	<b>3,562</b>	<b>1,477</b>	<b>1,250</b>	<b>201,750</b>
<b>Accumulated Depreciation and Impairment</b>					
<b>at 1 April 2016</b>	0	(49)	(69)	0	<b>(118)</b>
Depreciation charge	(2,544)	(49)	(47)	0	<b>(2,640)</b>
Depreciation written out to the Revaluation Reserve	0	11	0	0	<b>11</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	2,544	87	0	0	<b>2,630</b>
Derecognition – other	0	0	22	0	<b>22</b>
<b>at 31 March 2017</b>	<b>0</b>	<b>0</b>	<b>(95)</b>	<b>0</b>	<b>(95)</b>
<b>Net Book Value</b>					
<b>at 31 March 2017</b>	<b>195,462</b>	<b>3,562</b>	<b>1,383</b>	<b>1,250</b>	<b>201,656</b>
<b>at 31 March 2016</b>	<b>181,296</b>	<b>3,330</b>	<b>1,000</b>	<b>0</b>	<b>185,626</b>

The vacant possession value of dwellings within the Council's Housing Revenue Account as at 1 April 2017 was £590 million. Comparing the vacant possession value and Balance Sheet value of dwellings within the HRA shows the economic cost of providing council housing at less than market rents.

## HRA Intangible Assets

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>Total</b>		<b>Total</b>
<b>£000</b>		<b>£000</b>
	Balance at start of year:	
143	· Gross carrying amounts	91
(70)	· Accumulated amortisation	(36)
73	Net carrying amount at start of year	55
	Additions:	
0	· Purchases	0
(52)	Other disposals	0
(18)	Amortisation for the period	(18)
52	Amortisation written out on disposal	0
<b>55</b>	<b>Net carrying amount at end of year</b>	<b>36</b>
	Comprising:	
91	· Gross carrying amounts	91
(36)	· Accumulated amortisation	(55)
<b>55</b>	<b>Net carrying amount at end of year</b>	<b>36</b>

## HRA Assets Held for Sale

<b>Current</b>		<b>Current</b>
<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
0	Balance outstanding at start of year	0
	Assets newly classified as held for sale	
1,650	- Property Plant and Equipment	1,320
(1,650)	Assets sold	(1,320)
<b>0</b>	<b>Total Cash and Cash Equivalents</b>	<b>0</b>

## Notes to the HRA Account

### Housing Stock

31 March 2017		31 March 2018	
No.	Dwelling type	No.	
179	Bedsits	171	
1,563	Flats	1,560	
1,609	Houses / bungalows	1,604	
2	Hostels	2	
<b>3,353</b>	<b>Total</b>	<b>3,337</b>	

### Housing Revenue Account Capital Expenditure

31 March 2017		31 March 2018	
£000		£000	
	<b>Capital investment</b>		
2,971	Operational assets	3,233	
1,250	Non-operational assets	2,993	
0	Other	0	
<b>4,221</b>	<b>Total capital investment</b>	<b>6,226</b>	

Sources of funding			
(585)	Capital Receipts	(1,025)	
(2,555)	Major Repairs Reserve	(2,861)	
(1,081)	Unfinanced	(2,340)	
<b>(4,221)</b>	<b>Total funding</b>	<b>(6,226)</b>	

### Rent Arrears

Tenants' arrears at 31 March 2018 were £515k (previous year £423k). The provision for doubtful debts amounted to £60k (previous year £60k).

### Depreciation and Impairment of Non-Current Assets

31 March 2017		31 March 2018	
Depreciation £000	Impairment £000	Depreciation £000	Impairment £000
(2,544)	0	(3,613)	0
(49)	0	(39)	0
(47)	0	(74)	0
<b>(2,640)</b>	<b>0</b>	<b>(3,726)</b>	<b>0</b>

**Transactions relating to retirement benefits**

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(116)	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	(49)
<b>(116)</b>	<b>Movement on Pension Reserve</b>	<b>(49)</b>

**Total Capital Receipts Generated during the year**

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(30)	Land	0
(2,881)	Council Houses	(2,457)
<b>(2,911)</b>	<b>Total</b>	<b>(2,457)</b>

## Collection Fund

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates.

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
	<b>Income</b>	
	Local Taxes:	
93,163	Net Council Tax	98,981
38,230	Net business rates	36,750
-	Government Grants	-
<b>131,393</b>	<b>Total income</b>	<b>135,731</b>
	<b>Expenditure</b>	
	Demands and Precepts:	
69,820	West Sussex County Council	74,652
8,607	Sussex Police and Crime Commissioner	9,151
13,398	Arun District Council	14,244
	Interest	
	Share of business rate income	
3,479	West Sussex County Council	3,529
17,397	Central Government	17,644
13,918	Arun District Council	14,116
93	Payments to Central Government re transitional protection	308
177	Transfer to General Fund re cost of Business Rate collection	186
	Shares of Fund surplus or (deficit) - Council Tax:	
726	West Sussex County Council	897
90	Sussex Police and Crime Commissioner	111
140	Arun District Council	172
	Shares of Fund surplus or (deficit) - Business rates:	
(361)	West Sussex County Council	83
(1,806)	Central Government	414
(1,445)	Arun District Council	332
	Bad and doubtful debts - Council Tax:	
146	Written off	210
189	Provision adjustments	272
	Bad and doubtful debts - Business rates:	
273	Written off	146
42	Provision adjustments	66
	Appeals - Business rates:	
608	Use of provision	2,128
(237)	Provision adjustments	(741)
<b>125,254</b>	<b>Total Expenditure</b>	<b>137,920</b>
(6,139)	(Surplus) / deficit for year	2,189
2,979	Balance at 1 April brought forward	(3,160)
<b>(3,160)</b>	<b>Balance at 31 March carried forward</b>	<b>(971)</b>

The balance on this account represents the difference between total Council Tax and Business Rates receivable on an accruals basis and the payments made to this Council, major preceptors and the Government on a cash basis. The shares attributable to these bodies are shown below. This Council's share is shown on the Balance Sheet as "Collection Fund Adjustment Account".

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
(1,060)	Government	(330)
(1,002)	West Sussex County Council	(303)
(97)	Sussex Police and Crime Commissioner	(29)
(1,001)	Arun District Council	(309)
<b>(3,160)</b>	<b>Total</b>	<b>(971)</b>

### Analysis of movement on Collection Fund balance

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
	(Surplus) / deficit for year:	
(47)	Council Tax	728
(6,092)	Business rates	1,461
<b>(6,139)</b>	<b>Total</b>	<b>2,189</b>
	Balance at 1 April brought forward	
(992)	Council Tax	(1,039)
3,971	Business rates	(2,121)
<b>2,979</b>	<b>Total</b>	<b>(3,160)</b>
	Balance at 31 March carried forward	
(1,039)	Council Tax	(311)
(2,121)	Business rates	(660)
<b>(3,160)</b>	<b>Total</b>	<b>(971)</b>

## Notes to the Collection Fund

### 1. Council Tax Base

	2016/17	2017/18
Equivalent Valuation Band D properties in:		
Valuation Band A	2,929	3,133
Valuation Band B	6,509	6,755
Valuation Band C	13,289	13,790
Valuation Band D	12,575	12,912
Valuation Band E	10,863	11,086
Valuation Band F	7,425	7,560
Valuation Band G	4,114	4,127
Valuation Band H	447	452
<b>Total Band D Equivalents</b>	<b>58,151</b>	<b>59,815</b>
Allowance for non-collection 0.6%	(348)	(359)
<b>Tax Base for year</b>	<b>57,803</b>	<b>59,456</b>

### 2. Council Tax (total including parish average)

	2016/17	2017/18
Valuation Band A	£1,059.05	£1,099.39
Valuation Band B	£1,235.56	£1,282.62
Valuation Band C	£1,412.07	£1,465.85
Valuation Band D	£1,588.58	£1,649.08
Valuation Band E	£1,941.60	£2,015.54
Valuation Band F	£2,294.62	£2,382.00
Valuation Band G	£2,647.63	£2,748.47
Valuation Band H	£3,177.16	£3,298.16

### 3. General Statistics

	2016/17	2017/18
Rateable value of non-domestic properties at 31 March	£91.0m	£98.1m
Number of non-domestic properties at 31 March	4,807	4,861
Non-domestic rating multiplier: small businesses	0.484	0.466
Non-domestic rating multiplier: other	0.497	0.479
Average Council Tax for a Band D property	£1,589	£1,649

Business Rates revaluation took effect from 01 April 2017. This has resulted in a significant increase in total rateable value but a reduction in the rating multipliers.

## Glossary

### **Accounting Period**

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

### **Accounting Policies**

The specific principles, bases, conventions, rules and practices applied by the Council in preparing and presenting financial statements.

### **Accruals**

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

### **Accrued Interest**

Interest accumulated but not yet received or paid.

### **Actuarial**

The appraisal of economic and demographic factors in order to estimate future pension liabilities.

### **Actuarial Gains and Losses**

For a defined benefit pension scheme, the changes in actuarial surpluses or deficits that arise because:

- Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- The actuarial assumptions have changed

### **Agency Services**

Services which are performed by or for other councils or bodies, where the council/body responsible for the service reimburses the council carrying out the work for the costs incurred.

### **Amortisation**

The apportionment (charging or writing off) of the cost of an intangible asset as an operational cost over the asset's estimated useful life.

### **Amortised Cost**

The amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount.



**Asset**

An item having value to the Council in monetary terms. Assets are categorised as either current or non-current

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash);
- A non-current asset provides benefits to the Council and to the services it provides for a period of more than one year and may be tangible e.g. the Civic Centre, or intangible, e.g. computer software licence.

**Audit of Accounts**

An independent examination of the Council's financial affairs.

**Authority/Local Authority**

A Local Authority is an administrative body in local government, also referred to in the Statement of Accounts as a Council.

**Balance Sheet**

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

**Borrowing**

Using cash provided by another party to pay for expenditure, on the basis of an agreement to repay the cash at a future point, usually incurring additional interest charges over and above the original amount.

**Budget**

The forecast of net revenue and capital expenditure over the accounting period.

**Capital Expenditure**

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

**Capital Financing**

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

**Capital Grants**

Grants received towards capital expenditure.

**Capital Programme**

The capital schemes the Council intends to carry out over a specific period of time.

## **Capital Receipt**

The proceeds from the disposal of land or other fixed assets where the proceeds total over £10,000. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government but they cannot be used to finance revenue expenditure.

## **Collection Fund**

A separate fund that records the income and expenditure relating to Council Tax and non-domestic rates.

## **Community Assets**

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks.

## **Componentisation**

Component parts of a major asset may not have the same useful lives (i.e. they wear out or depreciate at different rates); therefore those components with a value that is significant in relation to the total value of the asset shall be depreciated separately. The purpose is to ensure that the depreciation charged in the Income & Expenditure Statement properly reflects the consumption of economic benefit.

## **Comprehensive Income and Expenditure Statement**

The account of the Council that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

## **Consistency**

The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

## **Contingent Asset**

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

## **Contingent Liability**

A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

## **Council Tax**

A local tax on domestic property set by local authorities in order to meet their budget requirement.

**Council Tax Base**

The total number of properties within the local authority area expressed in terms of band D equivalents, incorporating discounts, deductions and exemptions.

**CIPFA**

The Chartered Institute of Public Finance and Accountancy.

**Creditor**

Amount owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

**Current Service Cost (Pensions)**

The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

**DCLG**

Department for Communities and Local Government, the main Government department dealing with local government and community issues.

**Debtor**

Amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

**Defined Benefit Pension Scheme**

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

**Depreciated Replacement Cost (DRC)**

A method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence. It is used for specialist assets where no market exists.

**Depreciation**

The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Council's fixed assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

**Direct Revenue Financing**

Capital expenditure funded from revenue budgets. Also known as Revenue Contributions to Capital Outlay (RCCO).

**Discretionary Benefits (pensions)**

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

**Doubtful Debt**

A debt that the Council may not be able to recover. A provision is made in the accounts for doubtful debts each year based on the value and age of debts outstanding.

**Earmarked Reserves**

Reserves which are held by a Council for specified purposes.

**Events after the Balance Sheet date**

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

**Exceptional Items**

Material (see materiality) items that derive from events or transactions that fall within the ordinary activities of the Council but which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

**Existing use Value (EUV)**

The amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction in its existing use; it is used for most PPE assets with a variation required for council dwellings.

**Expected Return on Pension Assets**

For a funded defined benefit scheme, this is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Fair Value**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

**Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**Financial Asset**

Any asset that is cash, a contractual right to receive cash or another financial asset from another party, or an equity instrument issued by another party, examples include bank deposits, bonds and stocks.

**Financial Instrument**

A financial asset that is tradable, for example, bank deposits and investments.

**Financial Liability**

An obligation to deliver cash or another financial asset.

**General Fund**

The main revenue fund from which the Cost of Services is met.

**Going Concern**

The concept that the Statement of Accounts is prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

**Government Grants**

Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Council. These grants may be specific to a particular scheme or may support the revenue spend of the Council in general.

**Held for Sale**

Asset held for sale are those assets where it is probable that the carrying value will be recovered principally through a sale transaction rather than through continuing use.

**Highest & Best Use**

The highest and best use of the asset provides the maximum value to market participants through its use, taking into account the use of the asset that is physically possible, legally permissible and financially feasible.

**Historic Cost**

The amount originally paid for a fixed asset.

**Housing Capital Receipts Pool**

A proportion of receipts relating to housing disposal is payable to the Government in accordance with statutory requirements. This is known as housing capital receipts pooling.

**Housing Revenue Account (HRA)**

A separate account to the General Fund, which includes the income and expenditure arising from the provision of housing accommodation by the Council.

**IFRS**

International Financial Reporting Standards (IFRS) a global language for business affairs so that accounts are understandable and comparable across international boundaries.

**Impairment**

A reduction in the value of a fixed asset to below its recoverable amount, the higher of the asset's fair value less costs to sell and its value in use.

**Infrastructure Assets**

Fixed assets belonging to the Council that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are footpaths and coast protection defences.

**Intangible Assets**

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Council's intangible assets comprise computer software licences.

### **Interest Cost (Pensions)**

For a defined benefit scheme, the expected increase during the period of the present value of the scheme liabilities because the benefits are one period closer to settlement.

### **Investment Property**

Interests in land and/or buildings which are held solely to earn rentals or for capital appreciation or both. Investment Properties are valued at highest and best use and must be revalued every year.

### **Investments (Pension Fund)**

The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

### **Lease**

A contract for the hire of a specific asset. The lessor owns the asset but conveys the right to use the asset to the lessee for an agreed period of time in return for the payment of specified rentals. Leases may be either operating leases or finance leases.

### **Liability**

A liability is where the Council owes payment to an individual or another organisation.

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

### **Liquid Resources**

Current asset investments that are readily disposable by the Council without disrupting its business and are either:

- Readily convertible to known amounts of cash at or close to the carrying amount; or
- Traded in an active market.

### **Major Repairs Reserve**

All local housing authorities are required to operate this reserve which is used to fund either capital expenditure relating to HRA dwellings or the repayment of housing debt.

### **Market Participants**

Buyers and sellers in the principal (or most advantageous) market for an asset or liability. The principal market is that with the greatest volume and level of activity, whilst the most advantageous is the market that maximises the amount that would be received to sell the asset or paid to transfer the liability after taking into account transport and transaction cost.

**Market Value**

The amount at which a property would be exchanged between knowledgeable and willing parties in an arm's-length transaction.

**Materiality**

The concept that the Statement of Accounts should include all amounts which, if omitted, or misstated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

**Minimum Revenue Provision (MRP)**

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council.

**Net Book Value**

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

**Non-Distributable Costs**

These are overheads for which no user now benefits and as such are not apportioned to services.

**Non-Domestic Rates (NDR)**

The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by central government and multiplied by the assessed rateable value of the premises they occupy. In England it is collected by the Council on behalf of itself, central government and major preceptors.

**Non-Operational Assets**

Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

**Observable Inputs**

Are those that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumption that market participants would use when pricing the asset or liability.

**Operating Lease**

A lease where the ownership of the fixed asset remains with the lessor.

**Operational Assets**

Fixed assets held and occupied, used or consumed by the Council in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**Orderly Transaction**

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction.

**Past Service Cost (Pensions)**

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

**Pension Scheme Liabilities**

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

**Precept**

The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

**Precepting Authority**

An authority that sets a precept to be collected by a billing authority (Arun) through the Council Tax bill. West Sussex County Council and Sussex Police & Crime Commissioner are known as major precepting authorities. Parish/Town Councils are known as local precepting authorities.

**Prior Year Adjustment**

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Property, Plant & Equipment (PPE)**

Tangible assets (i.e. assets with physical substance) that are held for use by the Council for the supply of services, for rental to others or for administrative purposes that are expected to be used for at least part of the succeeding financial year. These may be operational or non-operational.

**Provision**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

**Public Works Loan Board (PWLB)**

A Central Government Agency, which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government can borrow itself.

**Rateable Value**

The annual assumed rental of a hereditament, which is used for NNDR purposes.

**Related Parties**

There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Council's members, the Chief Executive, its Directors and their close family and household members.



## **Related Party Transactions**

The Statement of Recommended Practice requires the disclosure of any material transactions between the Council and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

## **Remuneration**

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits. Received other than in cash. Pension contributions payable by the employer are excluded.

## **Reserves**

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

## **Residual Value**

The net realisable value of an asset at the end of its useful life.

## **Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

## **Revenue Expenditure**

The day-to-day expenses of providing services.

## **Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure which ordinarily would be revenue, but is statutorily defined as capital. Examples of REFCUS include grants of a capital nature such as disabled facility grants.

## **Revenue Support Grant (RSG)**

A grant paid by Central Government to authorities, contributing towards the general cost of their services.

## **Support Services Costs/Charges**

Expenditure on administrative and professional services and office accommodation, which is recharged to service users on a specified basis.

## **Tangible Fixed Asset**

Physical assets that yield benefits to the Council and the services it provides for a period of more than one year.

## **Useful Economic Life (UEL)**

The period over which the Council will derive benefits from the use of a fixed asset.

**Unobservable Inputs**

Are inputs for which market data is not available and that are developed using the best information available to the Council about the assumptions that market participants would use when pricing the asset or liability.

**Unusable Reserve**

Those reserves that the Council may not use to fund the services it provides. This includes the Revaluation Reserve that holds the unrealised gains and losses on Property Plant and Equipment.

**Usable Reserve**

Those reserves that the Council may use to fund the services it provides, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use e.g. the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt.

## Appendix 2

*Depreciation*

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- ~~dwelling and other~~ buildings (other than HRA dwellings) – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant and equipment – generally straight-line allocation over 5 - 20 years
- infrastructure – straight-line allocation over 20 - 40 years
- HRA dwellings – a depreciation procedure will be formulated in consultation with the Council's valuer and presented to the Asset Management Group for approval.

Where appropriate the individual components of an asset will be depreciated separately. The materiality thresholds for applying componentisation are as follows:

- Assets other than HRA dwellings:  
Componentisation will only apply to an asset whose depreciable capital value is greater than or equal to £500k.
- HRA dwellings:  
~~Componentisation does not currently apply, but this is being reviewed in consultation with the Council's external valuers.~~ Componentisation will be covered as part of the HRA dwellings depreciation procedure.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

**AGENDA ITEM NO.11****ARUN DISTRICT COUNCIL****REPORT TO AND DECISION OF AUDIT & GOVERNANCE  
COMMITTEE  
ON 26 JULY 2018****PART A : REPORT**

<b>SUBJECT:</b> Annual Governance Statement 2017/18 and Code of Corporate Governance 2018/19
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<b>REPORT AUTHOR:</b> Stephen Pearse, Chief Internal Auditor <b>DATE:</b> July 2018 <b>EXTN:</b> 37561 <b>PORTFOLIO AREA:</b> Corporate Support
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**EXECUTIVE SUMMARY:**

To present the Annual Governance Statement for 2017/18 for the Committee's approval, supported by the updated local Code of Corporate Governance

**RECOMMENDATIONS:**

Members of the Audit & Governance Committee are requested to:-

- endorse the minor change to the local Code of Corporate Governance
- approve the Council's Annual Governance Statement for 2017/18

**1. BACKGROUND:****1.1 BACKGROUND**

The Council is required by the Accounts & Audit Regulations 2015 to produce and approve an Annual Governance Statement, to accompany the annual accounting statements.

The revised Regulations require that the Annual Accounts (from 2017/18-on) are completed and signed / dated by the responsible financial officer by 31<sup>st</sup> May, with formal approval of the audited Annual Accounts, by the Council or its designated body (in this case, the Audit & Governance Committee), by 31<sup>st</sup> July.

The Annual Governance Statement (AGS) is based upon CIPFA best practice to meet the requirements of the Regulations. As reported to the Committee last year, CIPFA issued its new Delivering Good Governance in Local Government: Framework and associated Guidance Note in 2016 and the new Framework now forms the basis for AGS reporting and for the Council's local Code of Corporate Governance.

The AGS document has been prepared for, and considered by, the Council's Governance & Risk Group (made up of representatives from Service areas and Finance, including Internal Audit and the Risk Manager). It is based upon the Council's local Code of Corporate Governance and other supporting documentation, including the Council's Strategic Risk Register and the annual audit opinion provided by the Chief Internal Auditor.

The updated Code of Corporate Governance document has also been considered by the Governance & Risk Group. Assessment by Internal Audit of the Council's compliance against this Code forms part of the assurance process for the preparation of the Annual Governance Statement. The updated local Code is required to be published on the Council's website.

Last year's AGS was the first to be prepared under the new Framework, which now has seven guiding principles. In preparing the current document previously agreed wording has been used from the last AGS and additional wording / updates have been applied to reflect relevant changes and progress made by the Council in 2017/18. Sections where changes have been made are highlighted (shaded) in the document.

The local Code of Corporate Governance was simplified last year and new format used was recommended by members of the Sussex Audit Group and is based upon that already adopted in another Council(s). There has only been one minor change proposed to update this document.

The draft Annual Governance Statement is provided for the Committee's approval. (The document is also signed by the Chief Executive Officer and the Leader of the Council and the final version will accompany the Annual Accounts of the Council which will be reviewed and approved on 26<sup>th</sup> July).

## 1.2 POINTS TO NOTE

As it has been difficult to fully align meetings of the Committee with the revised accounting timescales, the draft version of the document has not been presented to the Committee before 31<sup>st</sup> May. However, the draft was passed to the Chairman and Vice-Chairman for any initial comment at that time, in advance of the final version being presented at this meeting.

### 2. **PROPOSAL(S):**

It is proposed that the Committee notes the content of the report

### 3. **OPTIONS:**

To endorse the minor change to the local Code of Corporate Governance and approve the Council's Annual Governance Statement for 2017/18, or not

### 4. **CONSULTATION:**

In preparing the AGS, input was requested from the management of various service areas and the document was considered and agreed by the Council's Governance & Risk Group

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	<b>YES</b>	<b>NO</b>
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
<b>6. IMPLICATIONS:</b>		

**7. REASON FOR THE DECISION:**  
The Committee endorses the minor change to the local Code of Corporate Governance and approves the Council's Annual Governance Statement for 2017/18

**8. BACKGROUND PAPERS:**  
N/A

# Annual Governance Statement

## 2017/18

## Arun District Council

### Annual Governance Statement 2017/18



#### Scope of Responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. There is also 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 efficiency, effectiveness and economy.

In discharging these overall responsibilities, the Council is responsible for putting proper arrangements in place for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council delivers good governance and reviews the effectiveness of these arrangements to meet the requirements of the Accounts and Audit Regulations 2015, specifically:-

- Regulation 6(1), which requires that the Council “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”
- Regulation 6(4), which requires the annual governance statement to be “approved in advance of the relevant authority approving the statement of accounts” and “to be prepared in accordance with proper practices in relation to accounts”, to accompany the Council’s Annual Accounts.

*(The above, which came into force on 1<sup>st</sup> April 2015, replace the equivalent Regulations 4(2) and 4(3) from the Accounts and Audit (England) Regulations 2011).*

This document is the Council’s Annual Governance Statement (AGS), relating to the internal control environment in place covering the 2017/18 financial year and the period to 31<sup>st</sup> May, during which the Council’s Annual Accounts are prepared. (Under the changed Regulations, the Accounts are approved by the Council by the end of July, following review by the appointed external auditors).

#### The Council’s Governance Framework

The governance framework comprises the behaviours and values, systems and processes, by which the Council is directed and controlled and its activities through which it accounts to, engages with, and, where appropriate, leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable, and not absolute, assurance of effectiveness.



**Arun District Council**

**Annual Governance Statement 2017/18**



Organisations with good corporate governance demonstrate the capacity to maintain high quality services and to deliver improvement. In 2016, CIPFA published its new *Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE, 2016)*. This applies to Annual Governance Statements for the financial year 2016/17 onwards and the Council has adopted a local Code of Corporate Governance based upon the principles of the new Framework.

Compliance with the Council's local Code of Corporate Governance is considered annually and any issues identified are reported to the Audit & Governance Committee. Internal and external audit also produce reports which consider the adequacy of corporate governance arrangements across the Council.

The Terms of Reference for the Audit & Governance Committee were updated in 2017 as part of the Council's wider Constitution review. These provide clear guidance on its responsibilities, including consideration of all appropriate aspects of corporate governance. Minutes from meetings of the Audit & Governance Committee evidence this and are published on the Council's website.

There is an Annual Governance Statement (this document) which is approved by the Audit & Governance Committee and subsequently reported to Full Council with the minutes of the Committee. The AGS is published to accompany the Annual Accounts, once approved, on the Council's website.

The key elements of the systems and processes that comprise the Council's governance arrangements are shown below, in relation to the seven principles of the CIPFA/SOLACE framework:-

**A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law**

The culture of the organisation sets the foundation for ethical behaviour, staff / Member conduct and the prevention of fraud and corruption, by creating an environment that is based on openness and honesty in all Council activities. The culture is founded upon good organisational performance, external recognition, highly ethical staff and good employee attitude to internal controls.

The Equalities & Diversity framework (and associated Human Resources policies) sets the tone of the Council's respect agenda, with a new Equality & Diversity Policy adopted in 2014. The Council's Children, Young People and Adults At Risk – Safeguarding Policy was updated in 2015, to include considerations arising out of the Care Act 2014, and agreed by Members.

The Council has incorporated in its Constitution a:-

- Members' Code of Conduct
- Code of Conduct for Employees
- Protocol on Member / Officer Relations

and both staff and Members are appraised of the standards of behaviour expected.

## Arun District Council

### Annual Governance Statement 2017/18



With the enactment of the Localism Act 2011, the Standards Board for England was abolished. In 2012, a new local Member Code of Conduct was agreed in response to the changes required from the Act which is consistent with the seven 'Nolan' principles of standards in public life and this was revised and approved by Full Council in November 2017. Conduct of Members is monitored by a local Standards Committee (whose membership includes independent representatives), which also investigates any allegations of misconduct by Members, and responsibilities have been reviewed to align them with the new local Code.

The Council continues to operate to a 'Cabinet model', under the provisions of the Local Government Act 2000. The Council's Constitution provides clear guidance on the roles and responsibilities of the Leader, Cabinet portfolio holders, Chief Executive and Senior Officers. This is reviewed by the Monitoring Officer on a regular basis and proposed changes to the Constitution are considered by the Constitution Working Party (of Members), prior to recommending adoption by Full Council. (A diagrammatic representation of how the various stakeholders in the governance process interact is included as Appendix 1 to this document).

The Constitution also contains details of the authority's scheme of delegation and Article 12 identifies the roles and responsibilities of Senior Officers of the Council, with specific responsibilities also incorporated into individual job descriptions. The Leader, the Cabinet and the Committee Chairmen and their deputies receive briefings from Senior Officers on a regular basis, including financial, legal and technical advice.

In 2017/18, the review of the Constitution has continued and updated, including agreement of revised terms of reference for the Cabinet and Committees.

The Council takes the prevention of fraud, corruption and maladministration very seriously and has the following policies in place, which aim to prevent or deal with such occurrences:-

- Anti-Fraud, Corruption & Bribery Policy (updated to include the requirements of the Bribery Act 2011)
- Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998)
- HR policies regarding discipline of staff
- Registers of Interests for Members and staff.

The Council has assessed the risk of fraud in its operations, and the ongoing counter-fraud activities undertaken, against the CIPFA 'Code of practice on managing the risk of fraud and corruption', the updated 'Fighting Fraud & Corruption Locally' strategy, the UK Anti-Corruption Plan and general / professional best practice. It has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. An annual Counter-Fraud Report is provided to the Audit & Governance Committee and current / future risks are monitored.

The Council is committed to the highest possible standards of openness, probity and accountability. It has a published Whistleblowing Policy, which aims to encourage Officers, contractors and members of the public to report any instances of unlawful

## Arun District Council

### Annual Governance Statement 2017/18



conduct, health and safety risks, damage to the environment and possible fraud, irregularity or unauthorised use of Council funds.

A Corporate Complaints procedure is in place and the forms and guidance are available on the Council's website. Results of complaints which have been investigated are, where appropriate, used to drive service improvement and are reported on an annual basis to the Overview Select Committee, including any that have been referred to the Local Government Ombudsman.

#### **B. Ensuring openness and comprehensive stakeholder engagement**

The Council's Constitution sets out how the Council operates and the process for policy and decision-making. Certain decisions, identified in the Council's Constitution, can only be taken by the Full Council. The Constitution also sets out what are defined as 'key decisions'. These are made by the executive body, being the Leader and Cabinet, with the overall policy and budgetary framework approved by Full Council. Any decisions the executive wishes to take outside of this framework must be referred to the Full Council. Key decisions to be taken over the ensuing months are set out in the Council's Forward Plan, which is published on the Council's website. Reports presented to Cabinet, Committees and Full Council are generally reviewed on a risk / professional basis by Legal Services and Finance before being presented and appropriate Officers attend Committees in order to answer specific queries raised by Members.

The Council aims to ensure that clear channels of communication are established with all areas of the community and other stakeholders, ensuring accountability and encouraging open communication.

The Council's publication 'Arun Times' is distributed to all residents (currently twice-yearly) and is available on the Council's website. The website contains key published information and has been significantly re-developed to best serve the needs of the public. The Council is also looking to expand the use of social media channels (e.g. Twitter, Facebook, etc.) to inform residents and to provide additional functionality for customers to access services, etc. via mobile devices. **Development of a new ICT & Digital Strategy will commence in 2018.**

Full Council, Cabinet and Committee meetings are held in public, with the press and public only excluded when a report is presented as an 'exempt' item in accordance with Part 1 of Schedule 12A to the Local Government Act 1972. The two Member Working Groups also meet in public under the current scrutiny arrangements. Meeting agenda and public supporting documents are published at least five clear days in advance of meetings and made available at Council offices and on the website. Members of the public are also allowed to speak and ask questions at Full Council and Cabinet meetings, under the Rules of Procedure contained in the Constitution.

**The Council has adopted a Filming and Photographic Policy for key Council meetings,** to meet transparency requirements contained in the Local Audit &

## Arun District Council

### Annual Governance Statement 2017/18



Accountability Act 2014. Members will consider which key meetings merit the costs of live web streaming via the internet.

Various Council activities have, over many years, brought together a wide range of local organisations in all sectors of the Community and there is ongoing engagement with the voluntary and community sector. The Council believes that by engaging with local people and other stakeholders this ensures robust accountability.

The Council's priorities and plans contained in 'Your Council 2013-2017' (and now extended for the period 2018-2022) were drawn up with the involvement of a wide range of consultees, including:-

- staff
- Members
- the general public
- the Wavelength Residents Panel
- the Arun Youth Council
- the Local Strategic Partnership.

The Council engages in public consultation exercises, with a number undertaken recently in relation to current and future developments e.g. draft Local Plan main modifications, Arun Play Strategy and the Bognor Regis Seafront Play Area.

Arun gathers views from its residents in a number of ways, which helps to inform the priorities adopted by the Council and to identify the views of residents on proposals for new or changed services, projects and initiatives being considered by the Council. Key 'customer satisfaction' indicators are included in the Council's Corporate Plan and survey information is published on the Council's website. The survey mechanisms in use continue to evolve and it is intended that more future consultation will be undertaken via the internet.

The Council also has agreed and published a Petitions Scheme, allowing the public to raise issues of concern with a formal response procedure to be followed by the Council. Details of the use of the scheme and petitions received are published on the Council's website.

### **C. Defining outcomes in terms of sustainable economic, social and environmental benefits**

The Council aims to deliver high quality services that provide value for money and best fit the needs and priorities of the local community.

In 2013, after extensive consultation with staff, Members, residents, partners and local organisations, the Council approved and published 'Your Council 2013-17' – its priorities and plans for the next four years. The three themes where the Council can make the greatest difference have been identified as:-

- Your Council Services - delivering you the best we can afford
- Supporting you if you need help
- Your future.

## Arun District Council

### Annual Governance Statement 2017/18



In 2016, the Council agreed to extend the existing themes and revised Corporate Plan indicators have been approved for the period 2018-2022.

Within these three themes, the Council will deliver services and progress initiatives for improvement and change to make things better for:-

- our residents and everyone who visits this area
- our businesses
- those people who need the Council to step up and help them when it counts.

The priorities document was prepared against the backdrop of further significant cost savings already agreed for the 2013/14 year onward and highlighted the areas for delivering these, without detrimentally impacting important front-line services. Further government funding reductions have placed additional pressure on the Council to achieve future savings but, despite this, the progress of the Vision 2020 initiative and careful financial management have allowed the Council to continue to present a balanced Budget.

Value for money continues to be a key factor, with the Council looking to reduce costs and improve efficiency, with significant progress also being made on specific initiatives e.g. by specialist officers in respect of:-

- the identification of empty homes and returning them to permanent use, with the Council benefiting financially from New Homes Bonus provisions and the area from additional housing stock
- the detection of housing fraud, with a number of Council properties being recovered. This benefits the Council in lowering payments for emergency accommodation and restores the properties for allocation to residents in the greatest need. (This is now a permanent activity, following a successful pilot in 2016-17)
- the agreement of a Property Investment Strategy, allowing the re-investment of a proportion of funds from land and property sales by the Council. This enables capital investment in order to create a long-term revenue stream at higher rates of return than traditional investments. (In 2017, the Council purchased the Bognor Regis Arcade and is successfully filling the vacant tenancies).

The Council also continues to consider the impact on residents of the Welfare Reform Act 2012 and of central government changes to the social housing regime. Funds have also been allocated by the Council to better address homelessness issues, which includes building / acquiring additional properties in order to provide quality accommodation for emergency cases, with a view to reducing bed and breakfast accommodation costs (although additional funds were also provided for this in 2017/18).

The Council is committed to working with others to bring about real change for the benefit of the community. It already has a number of joint working arrangements in place and will further explore opportunities for partnerships and shared services, where this can be demonstrated to provide the best value. Periodic joint management team meetings are held to discuss issues with Chichester, Worthing and Adur District Councils, as well as liaison meetings of Arun's CMT and Cabinet

## Arun District Council

### Annual Governance Statement 2017/18



Members with the CEO and local members of West Sussex County Council. The Council's Chief Executive also liaises with the Members of Parliament whose constituencies include parts of the District and with other CEO's on the West Sussex County Chief Executives Forum. There are also County Joint Leaders meetings to consider cross-Council issues. Liaison meetings are also held with major local partners (e.g. University of Chichester, Ford Prison).

The Council continues to work with, and provide support to, Town and Parish Councils wishing to develop a Neighbourhood Development Plan and also maintains a register of 'assets of community value' (introduced as part of the Localism Act 2011).

The Council's overarching priorities are used to drive other key strategies for consultation, agreement and publication. The most significant of these are:-

- 'Open For Business' - An Economic Strategy for Arun 2009-2026 (*to be reviewed and refreshed in 2018*)
- Local Plan 2011-2031 (following the suspension of the draft Plan examination on the recommendation of the Planning Inspectorate, planned housing numbers and the evidence base were reviewed and updated, with the changes accepted by Full Council in 2017. The revised draft was submitted to the Inspector and the Examination In Public process was then completed in September 2017. The comments received from the Inspector have resulted in a number of 'Main Modifications' to the draft which have been consulted on and the updated draft Local Plan submitted for a final decision from the Inspector. Once agreement has been obtained, the final Local Plan will be presented for adoption by Full Council)
- Customer Access Strategy (this was previously progressed in line with the Council's existing priorities / plans and the findings of the 2014 LGA Peer Challenge, but is to be reviewed and updated in 2018/19 now that the new management and operational structure is in place)
- Leisure & Cultural Strategy 2013-2028 (recommendations for the future were agreed, following public consultation in 2012/13, and are currently being progressed):-
  - the leisure contract transferred to Freedom Leisure from April 2016
  - enhancements to the Arun Leisure Centre have been completed
  - the construction of the new Littlehampton Leisure Centre is under way, for delivery in 2019
- Bognor Regis regeneration:-
  - further to earlier public consultation on the proposals for the future of the key Regis Centre and Hothampton sites, options for the regeneration of these areas were identified. In early 2017, Full Council decided which of these options were preferred. Investigation with specialist advisors, key partners, etc. as to how these may be progressed is under way, with the Hothampton Linear Park proposal now approved for more detailed work
  - other agreed projects (e.g. the Bognor Regis 'public realm' transformation and Seafront Strategy) continue to be progressed with additional Coastal Communities funding secured

## Arun District Council

### Annual Governance Statement 2017/18



- the Council also continues to liaise with local partners on improvements (e.g. the University of Chichester's technology park – due to complete in 2018) and to attract new businesses / investment (e.g. the recently opened Rolls-Royce logistics centre)
- Enterprise Bognor Regis development, which is being progressed in conjunction with the draft Local Plan and a Bognor Regis Business Improvement District (BID) which has been implemented within the town centre
- Littlehampton public realm regeneration proposals have been agreed, but a grant funding bid has been initially unsuccessful
- progress of an Arun Growth Deal – to clearly identify the Arun 'economic growth offer' and to contribute to the overall West Sussex Growth Plan being developed by WSCC
- Corporate Major Projects Prioritised Programme, including funding for improvements to existing leisure and public facilities.

The Council has produced and sustained the Arun Developer & Partner Charter Plus and, in line with the Public Services (Social Value) Act 2012, encourages companies and partners to subscribe to this, to facilitate co-operative working, local employment, training opportunities, procurement and development within the district. The Local Enterprise & Apprenticeship Platform (LEAP) project, which commenced in 2015, also now offers a range of support to 'start-up' and small business in the greater Bognor Regis area. In addition to this, funding has been obtained in 2018 for 'Journey To Work' and retail training projects in order to assist both those without employment and independent retailers.

The Council has a key role in a number of local partnerships, working for the benefit of residents and the community to improve the local quality of life, including:-

- Safer Arun Partnership (the statutory community safety partnership)
  - current Council anti-social behaviour initiatives include a Public Spaces Protection Order (PSPO) covering designated areas within the District and an extension of the successful litter and dog fouling enforcement trial
- Arun Wellbeing & Health Partnership
  - Arun Wellbeing has a dedicated website and offers practical advice and events on health and diet to assist in the improvement of the health of residents and to reduce health inequalities within the area
  - it also offers home energy visits and advice

It also participates in national and county-wide partnership initiatives, including:-

- Coast To Capital Local Enterprise Partnership
- Wellbeing Programme
- Think Family Programme
- Coastal West Sussex Board and Programme.
- Rural West Sussex Partnership.

The Council is clear about its responsibilities for services, whether provided directly or through partners / other third parties. We will work closely with partners and influence third parties to make sure they deliver to agreed levels of quality and are accountable for what they do. Once the Local Plan has been agreed, there will need

## Arun District Council

### Annual Governance Statement 2017/18



to be significant infrastructure improvements in the District to support the predicted increase in housing numbers and the Council will continue to liaise with appropriate strategic partners and developers as to the required improvements.

We have a clear commitment to ensure services deliver the most appropriate combination of quality, value and choice to all residents. As part of this process, the Council has let a number of its major contracts in recent years (e.g. Combined Cleansing Services, Greenspace Management, Leisure Management) and continues to provide the best level of service, while achieving both cost savings and also encouraging partner investment in improvements.

The Council actively considers environmental issues in its policies / decisions and supports / promotes environmental initiatives for itself and its residents, including carbon management and energy efficiency schemes through its Energy Efficiency & Fuel Poverty Strategy.

#### **D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

The Council publishes its Annual Financial Accounts in accordance with the CIPFA guidelines. The annual Budget is approved by Full Council and regularly monitored and reported on. In the event of significant variation, requiring additional expenditure, a Supplementary Estimate may be raised for Full Council approval.

The Council has a range of performance indicators, used to measure progress against its key priorities in the annual Corporate Plan. The effectiveness of these indicators is considered annually. In 2017/18, officers and Members considered the performance indicators for inclusion in a revised Corporate Plan to cover the period 2018-2022, linked to the 3 existing Priority themes which the Council has already agreed will continue to be used for this period.

The Council regularly surveys users of its services and this process has been enhanced, with annual customer satisfaction surveys undertaken to assess key elements of the delivery of its new priorities. Results are published and the information provided is used as a resource which informs the Corporate Plan process and future policy decisions. Service and value for money reviews may also be undertaken (both via internal audits and Member Working Groups) and the Council's external auditors provide a value for money conclusion as part of their annual review of the Council's accounts.

Performance indicators are in place and regularly monitored, with periodic reports provided to the Corporate Management Team, Overview Select Committee and Cabinet, and also placed on the Council's website. (In 2018, the Council's previous system has been replaced with 'Pentana Performance' performance and risk management software for use with the revised indicators agreed for 2018/19-on).

Via the embedded monitoring and reporting processes that the Council has in place, performance, audit, risk and finance information is used to identify areas of concern



**Arun District Council**

**Annual Governance Statement 2017/18**



and for appropriate interventions to be planned and implemented to optimise the achievement of outcomes.

**E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

The Council's Chief Executive (Head of Paid Service) is responsible and accountable to the authority for all aspects of operational management. His objectives are set, and his performance monitored, by a panel of senior Members from the controlling group and also the Leader of the main opposition group.

In 2016/17, the Council implemented a management restructure as part of the Vision 2020 programme in order to achieve cost savings. As part of this there was a reduction of 2 Director posts in 2017. Heads of Service posts have also been removed, with service areas now reporting to Group Heads and realigned under the remaining Directors.

The Group Head of Corporate Support is the designated Section 151 Officer. The Council's Constitution contains specific details of the overall financial responsibilities of the role and an update of the Council's Financial Regulations was recently performed and the resulting changes included in the Constitution.

The Monitoring Officer (Group Head of Council Advice & Monitoring) has overall responsibility for legal compliance, and she and her staff work closely with Officers and Members to advise on legal issues which affect the Council. Under the Localism Act 2011, local authorities were granted the 'general power of competence', allowing greater freedom to work in partnership and to develop more innovative ways of providing services.

As reported in previous AGS documents, the Council has worked with staff and Members on its Vision 2020 programme in order to ensure that the Council's current agreed outcomes can be delivered and to identify the need for change to best position the Council for the future challenges facing the public sector. This includes consideration of predicted shifts in the residential, business and visitor populations and needs, providing services within the increased financial constraints placed upon local government by central government and the potential for alternative strategic delivery mechanisms for the provision of frontline services.

Since this work commenced, the government has announced further significant funding reductions and additional burdens to be placed upon local government, together with ongoing uncertainty regarding the impact of other proposals (e.g. business rate retention). The Council has incorporated these as far as possible into its Medium Term Financial Strategy (MTFS), used to inform its annual budget changes and it is anticipated that further annual cost savings will be required to maintain the Council's financial stability.

A phased approach has been taken to the 'Vision' work with the delivery of all services reviewed to ensure that best value is achieved, with waste and inefficiency

## Arun District Council

### Annual Governance Statement 2017/18



removed, while providing the best level of service possible to residents to achieve the Council's priorities and Corporate Plan outcomes. The Vision work included consideration of:-

- sharing or outsourcing of services (it was decided not to proceed in this direction in 2016)
- increasing income
- reducing costs
- improving effectiveness.

Annual savings in excess of £3M have been achieved and, although the formal programme has now been completed, the council will continue to review the efficiency and effectiveness of its services and operations in the challenging financial climate.

As part of the Vision work, consideration has also been given to the effective use of the Council's corporate properties and in 2017 space was made available in the Littlehampton Civic Centre and leased to the Probation Service. In 2018, a further accommodation review is under way to ensure that the Council's offices and facilities are fit for the future provision of services to the public, while incorporating 'cultural' changes such as an increase in home working by staff.

Human Resources procedures are in place to facilitate the recruitment and retention of capable staff. There is an induction and training programme for all staff, including increasing use of e-learning facilities. All staff are subject to an annual corporate appraisal scheme (revised in 2016), which will be used to identify personal training and development requirements and for them to be incorporated into a corporate training programme. Following the management restructure, the Council has agreed funding to provide continuing professional and personal development for the members of the new Senior Management Team and continues to offer management development training opportunities for other new and prospective managers.

Newly elected Members to the Council have a Member Induction programme, which was reviewed and updated in advance of the 2015 District Council elections, and this included specific training for Members in respect of the main quasi-judicial Committees. Members also have an ongoing training programme that incorporates understanding the aims and objectives of the Council, dealing with new legislation, understanding current legislation and developing their personal skills. They have also received training from the Monitoring Officer on the Council's Member Code of Conduct, which is reported to the Standards Committee.

For the local elections in May 2015, there were changes to the wards in the District and the number of District Councillors reduced from 56 to 54. This was a result of an electoral review requested by the Council and undertaken by the Local Government Boundary Commission for England. The final recommendations were confirmed by the Arun (Electoral Changes) Order 2013. Arun's Councillors are elected on a 4 year term, with the next elections to be held in May 2019.

#### **F. Managing risks and performance through robust internal controls and strong public financial management**

## Arun District Council

### Annual Governance Statement 2017/18



The system of internal control is based upon an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically.

The Council has an agreed and published Risk Management Strategy (which includes the Council's risk appetite statement), and reflects the roles and responsibilities of Members and all levels of staff in the risk management process. Internal and external audit work will consider and report upon risk management in the area under review. The Council has a Governance & Risk Group of Officers, who regularly consider current issues and the sources of assurance to support the Annual Governance Statement.

The Council's Strategic Risk Register (SRR) is periodically reviewed by the Governance & Risk Group and Corporate Management Team. The Council recognises that it faces significant financial challenges in the coming years, together with the uncertainty surrounding major reforms proposed / being progressed by central government. Reports are presented to the Audit & Governance Committee, which was also involved in revising the current SRR document and which is published on the Council's website. In addition, all Service areas are required to prepare and maintain Operational Risk Registers, which are reviewed by the Governance & Risk Group.

Proposals for all major IT and business transformation projects incorporate a full risk assessment in the report to the Arun Improvement Programme Board and consideration of risk is also included in the Project Initiation Documents (PIDs) for the projects they approve. The Council continues to review its data security policies, processes and staff training in order to meet the requirements of the General Data Protection Regulation (GDPR) and to minimise the risk / impact of cyber-attacks affecting the Council's IT network and systems.

The Council's policy for managing financial risk is considered on a regular basis. Financial Regulations (including procurement policies), contained in the Constitution, are reviewed by the Section 151 Officer and in 2016/17 a number of changes were progressed adopted by Full Council.

The Audit & Governance Committee receives regular reports on the Council's Treasury Management function and the Council complies with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities (both of which were revised in 2017).

As reported in previous years, the Council commenced a council house building and development programme to provide additional rented residential accommodation (with the first properties completed in 2017). Although the HRA is ring-fenced (and separate from the Council's General Fund), its future financing has been significantly adversely impacted by the government's 2015 Budget change to reduce social rents by 1% for each year until 2019 and also by the ongoing uncertainty regarding the financial impact of various requirements / proposals from the Housing & Planning Act

## Arun District Council

### Annual Governance Statement 2017/18



2016 and the “Fixing our broken housing market” White Paper in 2017. A new Housing Revenue Account (HRA) Business Plan for the period 2017-2027 has now been agreed by the Council, which includes:-

- the planned acquisition of 250 homes over the 10 year period, in order to replace the properties it is expected will be lost through Right To Buy regulations and to provide a net gain in the affordable housing stock over the period
- investment in the Council’s sheltered home schemes over the period to ensure they remain fit for purpose.

The Council fully meets the legal requirements for insurance and claims are managed in accordance with the Ministry of Justice protocols. All of the claims are monitored by the Insurance Officer and the results are reviewed.

The Council’s financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2010).

#### **G. Implementing good practices in transparency, reporting and audit to deliver effective accountability**

The work of the executive body and decisions made is monitored by the Council’s scrutiny function. This is fulfilled by the Overview Select Committee. In certain circumstances detailed in the Constitution, a Cabinet decision may be subject to ‘call-in’ for specific scrutiny which is carried out by the members of the Overview Select Committee.

There are also two Member Working Groups, who provide additional challenge and scrutiny to the executive. The number of Working Groups was reduced at the start of the 2016/17 Municipal Year and they now cover:-

- Housing & Customer Service
- Environment & Leisure.

The work of these groups may be commissioned by, and report to, Full Council, the Cabinet or an Individual Cabinet Member (ICM), as well as the Overview Select Committee. Members have also participated in joint scrutiny activities with other local Councils and these will be continued across the County area.

The Audit & Governance Committee is embedded as part of the Council’s overall governance framework. Its terms of reference incorporate the core functions, as identified in the appropriate CIPFA guidance. The Committee is responsible for issues relating to the Council’s system of internal control, risk management, financial reporting and counter-fraud, as well overseeing the arrangements for, and providing a forum for reporting and discussion of issues raised by, both internal and external audit.

The Council has a well-established Internal Audit section, which undertakes regular reviews as part of an agreed rolling programme of audits, to provide assurance on the adequacy and effectiveness of the systems of internal control operating within the

## Arun District Council

### Annual Governance Statement 2017/18



Council (including compliance with policies, procedures, legal rules and regulations). The Annual Audit Plan is prepared, and audit work performed, on a risk-based approach and this is approved by the Audit & Governance Committee. Action Plans are raised in each audit, which detail the recommendations which have been agreed with management. Findings and follow-up reports are periodically presented to the Audit & Governance Committee. The Council's internal audit arrangements have regard to the requirements of the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2010).

Internal Audit also carries out key financial audits of the Council's major systems as part of the International Standards on Auditing, on behalf of the external auditors. The Audit & Governance Committee receive all of the external assurance reports and provide Minutes / reports to Full Council.

The 2017/18 Statement of Accounts relate to the final year under the transition arrangements following the abolition of the Audit Commission. The Council chose to opt-in to the sector led body approach for future external auditor appointments (with a procurement exercise undertaken by the Government-appointed body Public Sector Audit Appointments Ltd.). As a result of this, the Council's current external auditors (Ernst & Young LLP) have been appointed to perform the audit of the Council's accounts for a further 5 years (covering the accounts from 2018/19 to 2022/23).

The Council operates a Publication Scheme, as required by the Freedom of Information Act 2000, and also publishes information to meet current local government data transparency requirements. Planning matters are also covered in the published annual Authority Monitoring Report, as required by the Localism Act 2011.

Details of payments made under the Members' Allowances Scheme are published on the Council's website. A revised scheme was adopted by Full Council in October 2013, based upon consideration of the recommendations of the independent panel. The next review by the Panel, which was delayed until the outcome of the Council's ongoing Vision work was known, will now take place in 2018/19 prior to the May 2019 District Council elections.

### **Review Of Effectiveness**

The Council annually reviews the effectiveness of its governance framework, including the system of internal control. The review is informed by the work of the managers who have responsibility for the development and maintenance of the governance process, the Chief Internal Auditor's annual report and also by comments made by the external auditor and other appropriate review agencies / inspectorates.

Information to provide assurance to support the content of the Annual Governance Statement is available across the Council in various sources. In preparing the AGS for the Governance & Risk Group, consideration has included:-

## Arun District Council

### Annual Governance Statement 2017/18



- CIPFA guidelines in respect of the production of an Annual Governance Statement (the best practice suggestions identified by CIPFA in their review of the framework included the suggestion that a diagrammatic representation of the systems, processes and documents that contribute to the Council's governance be drawn together on a single sheet. Based on the example provided, this has been prepared and is attached as Appendix 2 at the end of this document)
- CIPFA's 2016 guidelines in respect of the new CIPFA/SOLACE Delivering Good Governance in Local Government: Framework
- review / update of the Council's local Code of Corporate Governance for 2018/19
- an annual assessment of compliance with the local Code (and effectiveness of governance arrangements) performed by Internal Audit
- annual assurance statements from Corporate Management Team members, including input from their service Group Heads
- Service area Operational Risk Registers
- the Council's Strategic Risk Register, including updates for significant and emerging risks, common themes, etc. identified in the Service area ORR's
- assessment of other relevant sources of information that provide assurance
- the Internal Audit Annual Report & Opinion 2017/18 (to be presented to the Audit Committee on 26<sup>th</sup> July 2018 in conjunction with this document), which contains an assurance statement regarding internal control
- consideration of the Council's IT governance arrangements, to ensure they continue to be adequate to meet the authority's objectives
- the findings and comments of external audit, raised in their annual Audit Results Report.

The arrangements required for gathering assurances for the preparation of the Annual Governance Statement provide an opportunity for the Council to consider the robustness of the governance arrangements in place, affecting all areas of the organisation, and helps to identify those areas where improvement is required.

The Annual Governance Statement has been reviewed by the Governance and Risk Group and the Audit & Governance Committee. The process of preparing the Annual Governance Statement has in itself added value to the corporate governance and internal control framework of the Council.

### **Governance Issues**

While the governance arrangements in place continue to be regarded as fit for purpose in accordance with the current framework, a small number of specific risks have been identified which have been discussed with appropriate management and actions to mitigate them agreed.

The annual compliance review identified a number of issues requiring actions for improvement (some of which had not yet been completed from previous years) and these are identified in the action plan shown on the following pages. These include one long-term issue raised by the Audit Commission in their Annual Governance

**Arun District Council****Annual Governance Statement 2017/18**

Report for 2011/12. These will be considered and monitored by the Governance & Risk Group, with action plans, timescales and a responsible Officer agreed. Progress to address these issues will also be reported to the Audit & Governance Committee.

## Arun District Council

## Annual Governance Statement 2017/18

**Governance Risks Identified:-**

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
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**Issues identified in from the review of compliance with the local Code of Corporate Governance:-**

<p>The Council has undertaken a management and operational restructure in 2016-18 and the Council's operational risk registers (ORR) require review and update.</p> <p>The review will need to ensure that the ORRs are both up-to-date and also cover the whole of the revised structure of the Council.</p>	<p>The Council will be using new performance management software in 2018, which includes a risk management module.</p> <p>The format for operational risk registers for use in the new system will need to be agreed to allow them to be reviewed and updated. Direction will also be required from corporate management as to how the ORRs should be structured and maintained in order to cover the whole of the Council's revised structure.</p>	Governance & Risk Group	Sep 2018
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**Issues identified in past Annual Governance Statements:-**

<p>The review of possible future service delivery mechanisms under the Council's Vision 2020 work includes consideration of service reduction, shared service with other authorities and outsourcing.</p> <p>Major change will inevitably impact the Council's corporate governance arrangements and control environment.</p>	<p>The potential for shared support services was considered by the Council in 2016, but is not to be progressed.</p> <p>In 2017/18, the Council completed its restructure of senior management, but operational structures and responsibilities are still under review in a number of service areas.</p> <p>Time has been allocated in the annual audit plan (approved by the Audit &amp; Governance Committee) to consider the impact of proposed changes.</p> <p>Internal Audit will review the proposals and implementation of agreed changes to ensure that the impact on corporate governance and the control environment is minimised</p>	Chief Internal Auditor	Ongoing
<p>Partnership working and other innovative practices have been advised as increasingly important for the future, particularly as central government funding is likely to further decrease.</p> <p>Although the Council's major partnerships are known and progressed, there is no formal register of partnerships that</p>	<p>An internal audit of partnerships, against best practice guidance (e.g. from CIPFA), was completed and reported to the Corporate Management Team and Audit &amp; Governance Committee in 2015.</p> <p>A plan of action was agreed at this time, but progress has been delayed by the need to give</p>	Group Head of Policy	Feb 2019



## Arun District Council

## Annual Governance Statement 2017/18

**Governance Risks Identified:-**

Issue	Mitigating Action(s)	Responsible Officer	Target Date
enables the wider identification of outcomes, value for money or contribution to Council objectives, to ensure that such arrangements are of benefit.	consideration to possible alternative service delivery arrangements as part of the wider Vision 2020 work and also by the responsibility and operational changes resulting from the Council's management restructure. The priority of the new Group Head of Policy was the conduct of the various elections in 2017 and the recommended review into the identification and governance of partnerships will now be progressed in 2018.		
<p>Local Plan 2011-2031 – as reported previously, the Council's draft Plan examination was suspended for 12-18 months on the recommendation of the Planning Inspectorate following 'examination in public' in June 2015.</p> <p>Consideration has been given to the Inspector's conclusions contained in his report and the draft Local Plan and evidence base updated to include increased housing numbers.</p> <p>The 'examination in public' resumed with hearings held in September 2017.</p>	<p>The Council has considered the 'Interim Views following the Hearings' provided by the Inspector in October 2017. The Council has responded where appropriate and identified the Main Modifications required to the draft Local Plan / evidence base.</p> <p>These modifications have been consulted on and a revised submission made to the Planning Inspector for final approval. Once agreed, the final version will be presented to Full Council for adoption</p>	Director of Place / Group Head of Planning	Jun 2018

**Issues raised by the Audit Commission in respect of the 2011/12 annual statements:-**

<p>Further to comments raised in 2010/11, the Council's draft Disaster Recovery Plan (for the provision of IT services) requires completion and a regular programme of testing established, to ensure key systems and data can be recovered or restored in an efficient manner. The plans and outcome of testing should be reported to Members.</p> <p>In recent years, Zurich Risk Engineering (ZRE) the risk consultancy arm of the Council's insurers has been assisting the Council in a review of its Corporate Business Continuity</p>	<p>As has been previously advised, the Council's IT recovery arrangements have been subject to considerable change in recent years, including the implementation of the Storage Area Network (SAN) at the Civic Centre and a back-up SAN at the WSCC site in Chichester, to which regular automated off-site back-ups are being transmitted. However, the completion of appropriate documentation and implementation of a testing plan remains outstanding.</p> <p>The ZRE-assisted work has resulted in a draft Corporate BCP and further workshops</p>	Group Head of Neighbourhood Services / ICT & Service Improvement Manager	Dec 2018
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## Arun District Council

## Annual Governance Statement 2017/18

**Governance Risks Identified:-**

Issue	Mitigating Action(s)	Responsible Officer	Target Date
Plan (BCP) and the IT Disaster Recovery Plan was to be linked to this exercise.	<p>were held in 2016/17 to assist service areas in completing an updated Business Impact Assessment (BIA) for each area, which will identify recovery requirements and service priorities. These must be agreed and aligned with the ability to provide appropriate IT services in the event of a disaster.</p> <p>However, this work stalled during the restructure of the organisation and will now require review and update to reflect the new structure and organisational needs. A review of the Council's accommodation requirements is currently under way and the outcome of this may significantly impact both recovery options available and business requirements.</p>		

**Issues identified in the 2016/17 Annual Governance Statement that have now been resolved:-**

CIPFA's 'The Role of the Chief Financial Officer' document links into the governance requirements of the CIPFA/SOLACE Framework adopted by the Council. This states that Local Authorities must "Ensure that the CFO reports directly to the Chief Executive and is a member of the Leadership Team with a status at least equivalent to other members."	The Council implemented a management restructure in 2016/17. The CFO's role is now part of the new Group Head of Corporate Support post, which is part of the Corporate Management Team, and since September 2017 reports directly to the Chief Executive.	Chief Executive	Complete Sep 2017
In April 2016, CIPFA issued its new Delivering Good Governance in Local Government framework to take effect in 2017.	<p>Consideration was given to the new framework when preparing last year's documents and changes to the format and content of the revised local Code of Corporate Governance and Annual Governance Statement were approved by the Audit &amp; Governance Committee.</p> <p>The new framework will now be used as the basis for this and future years' documents.</p>	Chief Internal Auditor	Complete Jun 2017
The Council's Corporate Management Team commissioned a review of the Council's key strategy and policy	Although day-to-day changes are still being made to Council strategies and policies, the Council's 'Policy Framework'	Group Head of Council Advice & Monitoring Officer	Complete Sep 2017

## Arun District Council

## Annual Governance Statement 2017/18



## Governance Risks Identified:-

Issue	Mitigating Action(s)	Responsible Officer	Target Date
documentation, to ensure it was fit for purpose. Consideration of the Council's 'Policy Framework' (as contained in the Constitution) was also raised by the Overview Select Committee in 2015.	has been reviewed and updated as part of the overall review of the Constitution, with the changes approved by Full Council.		
Although the Council adopted a new local member Code of Conduct in 2012, in line with the requirements of the Localism Act 2011, 'interim arrangements' had been in place for Members' declarations of interest since mid-2012.	In 2017, the Council adopted an updated version of the Code and agreed revised wording for Member declarations of interest which are now in use for appropriate Council, Cabinet and Committee meetings.	Group Head of Council Advice & Monitoring	Complete Nov 2017
<p>In December 2014 CIPFA issued its new 'Code of practice on managing the risk of fraud and corruption' which the Council had not yet reviewed or adopted.</p> <p>Since that time, the updated national Fighting Fraud &amp; Corruption Locally strategy and the UK Anti-Corruption Plan had also been published and required consideration.</p>	<p>The Council has assessed itself against the published framework and also considered the other relevant documents in the assessment.</p> <p>The Council does not have a dedicated fraud team and will not formally 'adopt' the Code. However, counter-fraud work continues to be undertaken in line with the Code in various areas of the Council and is reported to the Audit &amp; Governance Committee as part of the Annual Counter Fraud Report.</p>	Chief Internal Auditor	Complete Oct 2017

**Arun District Council****Annual Governance Statement 2017/18****Certification**

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council. Where governance risks have been identified, mitigating actions have been advised by appropriate Officers (as documented above).

Signed:-

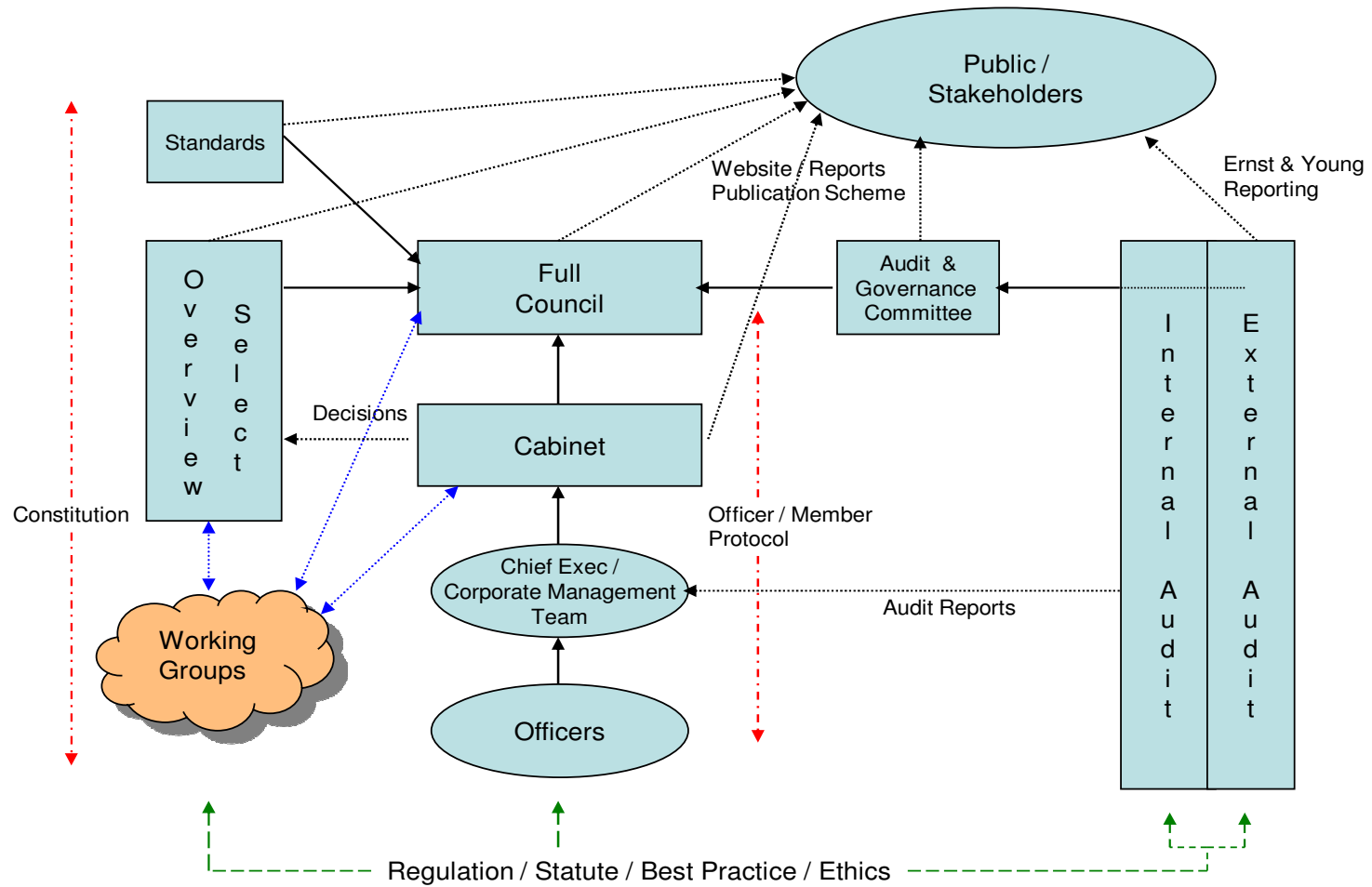
Councillor Mrs Gillian Brown  
Leader of Council

Nigel Lynn  
Chief Executive

on behalf of the Members and Senior Officers of the Council

Dated:-

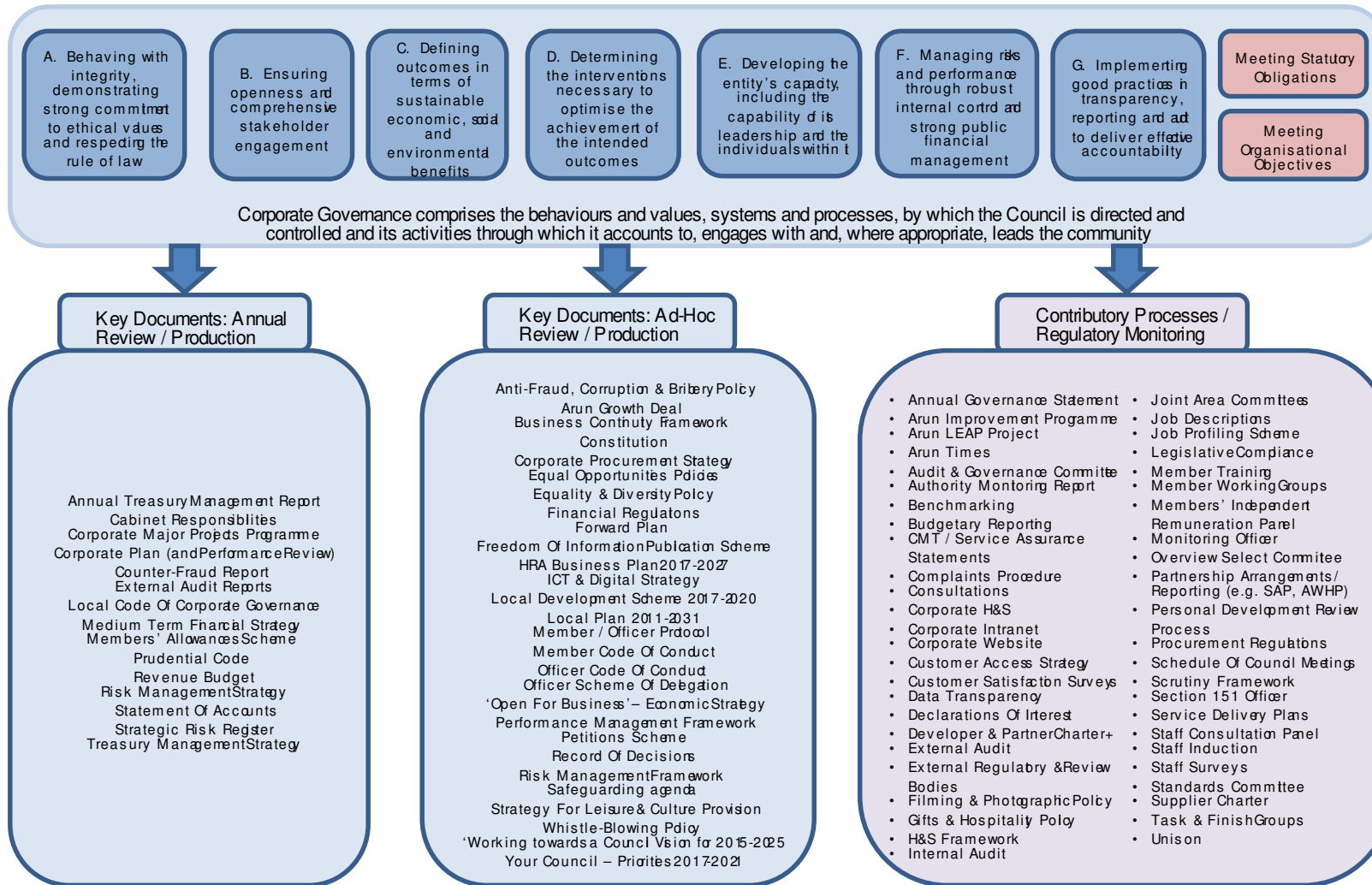
**Arun District Council – Governance Structure**





# Corporate Governance Framework

## Principles, Statutory Obligations and Organisational Objectives



# Local Code of Corporate Governance 2018/19

## INTRODUCTION

Corporate governance is a term used to describe the way that the Council is directed and controlled and its activities through which it accounts to, engages with and, where appropriate, leads the community. It includes the behaviours and values, systems and processes that underpin the Council's arrangements for effective:-

- Leadership
- Management
- Performance
- Delivery of positive customer outcomes
- Community engagement
- Stewardship of public money.

Through this, it enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

## GOOD CORPORATE GOVERNANCE

Arun District Council is committed to the principles of good corporate governance identified in the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (2016)' and confirms its commitment through the adoption, development and monitoring of its own Local Code of Corporate Governance.



This Framework is based upon the International Framework: Good Governance in the Public Sector, CIPFA / IFAC, 2014 which defines governance as follows:-

*Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved*

It also states that:-

*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*

*Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders*

The Council recognises that organisations with good corporate governance demonstrate the capacity to maintain high quality services and to deliver improvement. It will also encourage stakeholders to have confidence in us and allow the Council to undertake its role with its community.

This document sets out Arun District Council's *Local Code of Corporate Governance* and the processes for monitoring its effectiveness. The Code provides the framework for the Council to achieve its aims and objectives.

The Council's Governance & Risk Group has responsibility for:-

- overseeing the implementation and monitoring of the Code
- reviewing the operation of the Code on an annual basis
- agreeing and reporting on any significant revisions to the Code
- reporting annually to Members (via the Audit & Governance Committee) on compliance with the Code and on any actions that may be needed to ensure its effectiveness in practice (in conjunction with the preparation and approval of the Council's Annual Governance Statement).

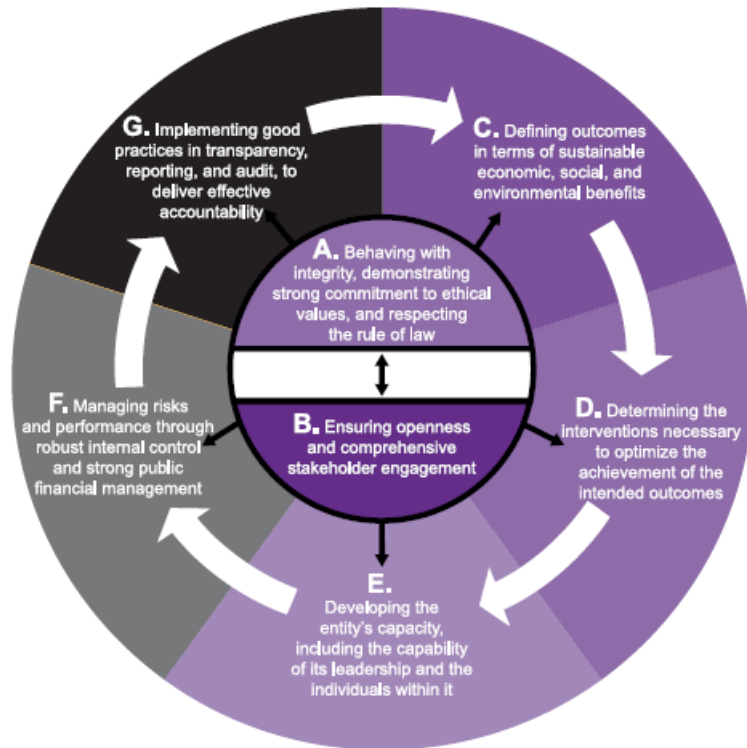
## **CORE PRINCIPLES**

The Code is based upon the following core principles (as set out in the 2016 Framework):-

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting and audit to deliver effective accountability



The correlation of these core principles is shown in the diagram below:-



The following shows how the Council meets these core principles:-

Principles	Sub-Principles	Demonstrated By
<b>Acting in the public interest requires a commitment to and effective arrangements for:</b>		
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Behaving with integrity	The Council's leadership sets a tone for the organisation by creating a climate of openness, support and respect Appropriate policies and processes are developed to embed the principles
	Demonstrating strong commitment to ethical values	Shared values, including leadership values, are developed and maintained for both the Council and its staff. These reflect public expectations and are communicated to Members, staff, the community and partners
	Respecting the rule of law	Standards of conduct and personal behaviour expected of Members and staff are defined and communicated through Codes of Conduct and protocols Council leadership recognises the limits of lawful action and observes both legislation and general responsibilities placed on local authorities Mechanisms are in place to deal with breaches of legal and regulatory provisions effectively

B. Ensuring openness and comprehensive stakeholder engagement	Openness	The Council is committed to openness and transparency in all its dealings, subject only to the need to preserve confidentiality where it is proper and appropriate to do so  Open and effective mechanisms are in place for recording decisions and the evidence on which these are based
	Engaging comprehensively with institutional stakeholders <sup>(1)</sup>	Consideration is given to the institutional stakeholders to whom the Council is accountable and assessment made on the effectiveness of the relationship and any changes required
	Engaging with individual citizens and service users effectively	Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, including monitoring arrangements to ensure that they operate effectively  Undertaking appropriate consultation and customer satisfaction exercises
<b>In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good also requires a commitment to and effective arrangements for:</b>		
C. Defining outcomes in terms of sustainable economic, social and environmental benefits	Defining outcomes	Developing and promoting the Council's purpose and vision and using this as a basis for corporate / service planning and shaping other key strategies  Focussing on the purpose of the Council and on outcomes for the community and publishing them annually as part of the Corporate Plan
	Sustainable economic, social and environmental benefits	Regular review of the Council's vision and its implications for the Council's governance arrangements and economic, social and environmental benefits  Consideration of social and environmental impacts in policies / decisions  Supporting / promoting environmental initiatives for itself and its residents
D. Determining the interventions necessary to optimise the achievement of the intended outcomes	Determining interventions	Published annual and periodic reports to the public and Members which communicate the Council's activities, achievements, plans, financial position and performance  Interventions required are identified through these reports
	Planning interventions	Performance, audit, risk and finance information is used to identify areas of concern and to plan required interventions
	Optimizing achievement of intended outcomes	An agreed annual Budget and Medium Term Financial Strategy to ensure that finances are available to enable delivery of the Council's plans

		SMART outcomes, of benefit to the community, underpinned by robust plans and efficient business activity
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it	Developing the entity's capacity	Clear vision, strategy and direction, underpinned by capable leadership (reinforced by the 2016/17 management restructure)  Ongoing work, following-on from the 2020 Vision programme, to ensure the best provision of future services that can be delivered effectively
	Developing the capability of the entity's leadership and other individuals	Recruitment and retention of high performing staff and supplier partners Development training provision for senior managers
F. Managing risks and performance through robust internal control and strong public financial management	Managing risk	Embedded risk management processes which are linked to corporate priorities, project delivery and organisational processes  Horizon scanning for potential future risks / opportunities
	Managing performance	Performance targets set via Cabinet, with outturns regularly monitored and reported to stakeholders
	Robust internal control	Appropriate preventive / detective controls in place include segregation of duties, approval / authorisation processes, security of assets and audits (both internal and external)
	Managing data	Robust information governance standards and security mechanisms in place  These will be reinforced and all staff trained to meet the new requirements of the General Data Protection Regulation (GDPR)
	Strong public financial management	Annual Budget agreed by Full Council, with accountable budget holders, and subject to regular monitoring / reporting Medium Term Financial Strategy and Treasury / investment Strategy agreed and regularly reviewed  Audited annual statement of accounts
G. Implementing good practices in transparency, reporting and audit to deliver effective accountability	Implementing good practice in transparency	Meeting Local Government Transparency Code requirements  Member scrutiny function in place to encourage constructive challenge and performance improvement  Transparency, accountability and integrity demonstrated through the Council's governance framework
	Implementing good practices in reporting	Processes for report publication ensure that there is appropriate consideration of legal, financial, technical and risk matters

		Ensuring that there is 'ownership' by appropriate senior management and Members
	Assurance and effective accountability	Ensuring that recommendations made by external audit are acted upon Ensuring an effective internal audit service, with direct access to Members is in place Welcoming peer challenge, reviews and inspections from regulatory bodies

(1) - institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable

**AGENDA ITEM NO.12****ARUN DISTRICT COUNCIL****REPORT TO AUDIT AND GOVERNANCE COMMITTEE  
ON 26 July 2018****PART A: REPORT****SUBJECT: Treasury Management Annual Report 2017/18****REPORT AUTHOR:** Sian Southerton – Senior Accountant (Treasury)  
**DATE:** June 2018 **EXTN:** 37861**EXECUTIVE SUMMARY:**

To report on the Treasury Management activities for the year 2017/18 to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

**RECOMMENDATIONS:**

Audit Committee is requested to recommend Full Council to:

- (i) approve the actual prudential and treasury indicators for 2017/18 contained in the report;
- (ii) note the treasury management report for 2017/18; and
- (iii) note the treasury activity during 2017/18 which has generated interest receipts of £695,980 (1.05%). (Budget £530,000 -1.02%)

**BACKGROUND:****1.0 INTRODUCTION**

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2017/18 the minimum reporting requirements of the code were met and Full Council received the following reports:

- the annual treasury strategy report in advance of the year (Council 18/03/17).
- the mid year treasury update reports on 8<sup>th</sup> November 2017 and 10<sup>th</sup> January 2018.
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Governance Committee before they were reported to Full Council.

Members of the Audit and Governance Committee, Cabinet and Overview Select Committee were invited to attend a workshop presented by Capita Asset Services (Treasury advisors) explaining the roles and responsibilities of elected members and giving them an economic update. The latest session was held on 7th December 2017.

The Annual Treasury Management Report for 2017/18 summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting on the required prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

## 2.0 THE ECONOMY AND INTEREST RATES

**UK.** The outcome of the EU referendum in June 2016 resulted in a gloomy outlook and economic forecasts from the Bank of England based around an expectation of a major slowdown in UK GDP growth, particularly during the second half of 2016, which was expected to push back the first increase in Bank Rate for at least three years. Consequently, the Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of cheap financing to the banking sector up to February 2018. Both measures were intended to stimulate growth in the economy. This gloom was overdone as the UK economy turned in a G7 leading growth rate of **1.8% in 2016**, (actually joint equal with Germany), and followed it up with another **1.8% in 2017**, (although this was a comparatively weak result compared to the US and EZ).

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this

was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

GDP growth in the second half of 2017 came in stronger than expected, while in the new year there was evidence that wage increases had started to rise. The **8 February MPC meeting** minutes therefore revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years.) This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate. This shift in market expectations resulted in **investment rates** from 3 – 12 months increasing sharply during the spring quarter.

Link Asset Services latest interest rate forecast suggests the next rise will be in November 2018, followed by further increases in September 2019, June 2020 and November 2020.

**PWLB borrowing rates** increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to **US treasuries**. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

The major UK landmark event of the year was the inconclusive result of the **general election** on 8 June. However, this had relatively little impact on financial markets. However, **sterling** did suffer a sharp devaluation against most other currencies, although it has recovered about half of that fall since then. Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant hold up to making progress.

**EU.** Economic growth in the EU, (the UK's biggest trading partner), was lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing to stimulate growth. However, growth eventually picked up in 2016 and subsequently gathered further momentum to produce an overall GDP figure for 2017 of 2.3%.

**USA.** Growth in the American economy was volatile in 2015 and 2016. 2017 followed that path again with quarter 1 at 1.2%, quarter 2 3.1%, quarter 3 3.2% and quarter 4 2.9%. The annual rate of GDP growth for 2017 was 2.3%, up from 1.6% in 2016.

### 3.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2017/18

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2016/17 Actual £,000	2017/18 Original £,000	2017/18 Actual £,000
Non-HRA capital expenditure	2,624	17,306	10,957
HRA capital expenditure	4,221	5,778	6,226
HRA Settlement	-	-	-
<b>Total capital expenditure</b>	<b>6,845</b>	<b>23,084</b>	<b>17,183</b>
Resourced by:			
• Capital receipts	1,359	10,166	10,425
• Capital grants	599	1,000	734
• Capital reserves	2,555	2,207	2,861
• Revenue	42	3,126	649
	<b>4,555</b>	<b>16,499</b>	<b>14,669</b>
<b>Unfinanced capital expenditure</b>	<b>2,290</b>	<b>6,585</b>	<b>2,514</b>

### 4.0 THE COUNCIL'S OVERALL BORROWING NEED

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2017/18 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources

Part of the Council's treasury activities is to address the funding requirements for any



borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWL] or the money markets), or utilising temporary cash resources within the Council.

The CFR increases when capital expenditure is incurred but not financed and reduces when amounts are set aside for loan repayments.

The Council currently has no debt other than that taken out for the HRA Self-Financing (March 2012). There are occasions when it is beneficial to make use of the Council's overdraft facility; however there was no requirement to use this facility in 2017/18. The facility has now been removed as the increased banking costs made it very expensive and rather than incurring any costs for the facility we now maintain an approx. £200k balance in the account daily (earning interest at the bank of England base rate -10bp, currently 0.40%) to cover any potential issue.

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement (summary in appendix1).

The Council's CFR for the year is shown below, and represents a key prudential indicator:

<b>CFR</b>	2016/17 Actual £,000	2017/18 Original £,000	<b>2017/18 Actual £,000</b>
Opening balance	54,090	51,559	<b>52,837</b>
<b>Add</b> unfinanced capital expenditure	2,333	6,585	<b>2,713</b>
<b>Less</b> Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP)	3,586	4,072	<b>3,743</b>
Closing balance	52,837	54,072	<b>51,807</b>

The borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

Arun's only borrowing relates to the HRA Self-Financing settlement (currently £53.18m). Prior to this borrowing being undertaken Arun had a negative CFR of £2.6m which has

arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision. As a result of this Arun's gross debt exceeds its CFR and is likely to continue to do so in the short term.

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The authorised limit was not breached in 2017/18.

**The operational boundary** – 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 is acceptable subject to the authorised limit not being breached.

## 5.0 TREASURY POSITION AS AT 31 MARCH 2018

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

During 2017/18, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	31 March 2017 Actual £000	2017/18 Original £000	31 March 2018 Actual £000
Capital expenditure	6,845	23,084	<b>17,183</b>
Total Debt	53,180	53,180	<b>53,180</b>
Capital Financing Requirement at 31 <sup>st</sup> March:			
• Non-HRA	-3,767	-1,293	<b>-3,594</b>
• HRA	56,604	55,365	<b>55,401</b>
• <b>Total</b>	<b>52,837</b>	<b>54,072</b>	<b>51,807</b>
Over / (under) borrowing	343	892	<b>1,373</b>
Investments			
• Longer than 1 year	14,000	n/a	<b>8,000</b>
• Under 1 year	46,641	n/a	<b>52,730</b>
• <b>Total</b>	<b>60,641</b>	<b>n/a</b>	<b>60,730</b>

Other prudential and treasury indicators are to be found in the main body of this report and appendix 1.

The base rate increased from 0.25% to 0.50% during 2017/18 (2/11/17). A minor increase which meant the 2017/18 financial year continued to be the challenging environment of previous years. Achieving a return over 1% continues to be a challenge, however the CCLA property fund, (investment of £5M increased from £4M on 30/8/17) continues to enhance these returns.

At the beginning and the end of 2017/18 the Council's treasury position was as follows:

<b>Investments / Debt</b>	<b>2016/17 Rate/ Return (actual)</b>	<b>31<sup>st</sup> March 2017 Principal</b>	<b>2017/18 Rate / Return (budget)</b>	<b>2017/18 Rate / Return (Actual)</b>	<b>31<sup>st</sup> March 2018 Principal</b>
Total Investments	1.11%	£60.64m	<b>1.02%</b>	<b>1.05%</b>	<b>£60.73m</b>
Total Debt	2.75%	£53.18m	<b>2.75%</b>	<b>2.75%</b>	<b>£53.18m</b>

The exposure to fixed and variable rates was as follows;

	31 <sup>st</sup> March 2017 Actual		2017/18 Original Limits	31 <sup>st</sup> March 2018 Actual	
	£,000	%	%	£,000	%
Fixed rate (interest)	572	76	100	<b>464</b>	<b>67</b>
Variable rate (interest)	182	24	40	<b>232</b>	<b>33</b>

The maturity structure of the debt portfolio is shown in appendix 1.

## 6.0 THE STRATEGY FOR 2017/18

The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until June 2019 and then only increase once more before 31.3.2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

There was one base rate increase from 0.25% to 0.50% during 2017/18.

The Council took advantage of some 1 year deposits and notice accounts, and placed a further £1m investment in the CCLA property fund in order to lock some certainty into the portfolio and enhance returns.

**Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2017/18 approved by the Council on 18/03/17 was subject to no revisions during the year.

A full list of the Council's approved counterparties is included in appendix 2.

The spread of investments over a larger number of institutions has been challenging over the last few years and there was little improvement in 2017/18. The average amount of funds available to invest in 17/18 was £62M which was the same as 16/17.

## 7.0 BORROWING OUTTURN FOR 2017/18

Maturity loans for £70.902m were taken out on the 28<sup>th</sup> March 2012 to fund the new HRA self-financing system. The borrowing as at 31<sup>st</sup> March 2018 was £53.18m as shown below.

<u>Lender</u>	<u>Principal</u>	<u>Type</u>	<u>Interest Rate</u>	<u>Maturity</u>
PWLB	£8.860m	Maturity	1.99%	28/3/2020
PWLB	£8.860m	Maturity	2.40%	28/3/2022
PWLB	£8.870m	Maturity	3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	<b>£53.18m</b>		<b>2.75%</b>	

A maturity loan is a bullet repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in interest rates and the council has locked into very low borrowing rates. The average rate of these loans at 31<sup>st</sup> March 2018 was 2.75%.

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

## 8.0 INVESTMENT OUTTURN IN 2017/18

**Investment Policy** – the Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by Full Council

on 7<sup>th</sup> March 2018. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and subsequent reports and the Council had no liquidity difficulties.

**Resources** – the Council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources (£m)	31 <sup>st</sup> March 2017 £m	31 <sup>st</sup> March 2018 £m
Balances	17.6	<b>17.3</b>
Earmarked reserves	13.9	<b>18.4</b>
Provisions	2.0	<b>1.7</b>
Usable capital receipts	13.2	<b>5.0</b>
Total	46.7	<b>42.4</b>

The Council maintained an average balance of approximately £62m of internally managed funds. These internally managed funds earned an average rate of return of 0.79% plus 4.52% for the property fund giving an overall return of 1.05%. The comparable performance indicator is the average 7-day LIBID rate, un compounded, which was 0.21%. This compares with a budget assumption of £52m investment balances earning an average rate of 1.02%.

A full list of investments at the 31 March 18 is included in appendix 3 and appendix 4 shows a comparison of the Councils investments against other Councils which puts our performance in a favourable light.

Please note - The actual figures for 2017/18 have not yet been audited, so may be subject to change.

**Contact:** Sian Southerton ext 37861  
[sian.southerton@arun.gov.uk](mailto:sian.southerton@arun.gov.uk) @arun.gov.uk

<b>2. PROPOSAL(S):</b>		
To approve all 3 recommendations.		
<b>3. OPTIONS:</b>		
The Treasury Management Strategy is legislative and under the Local Government act 2003 and therefore the only option is follow the proposal.		
<b>4. CONSULTATION:</b>		
Has consultation been undertaken with:	<b>YES</b>	<b>NO</b>
Relevant Town/Parish Council		√
Relevant District Ward Councillors		√
Other groups/persons (please specify)	√ Treasury Advisors	
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>		
Financial	√	
Legal		√
Human Rights/Equality Impact Assessment		√
Community Safety including Section 17 of Crime & Disorder Act		√
Sustainability		√
Asset Management/Property/Land		√
Technology		√
Other (please explain)		
<b>6. IMPLICATIONS:</b>		
Approval will enable the Council to comply with legislation and provide a Treasury Service		

<b>7. REASON FOR THE DECISION:</b>
Statutory and the limits set, safeguard the Council against financial losses.

<b>8. BACKGROUND PAPERS:</b>
CIPFA'S Treasury Management in the Public Services: Code of Practice (2017) <i>(Link not available as copyright)</i>
The Prudential Code for Capital Finance in Local Authorities (2017) Guidance notes (2013) <i>(Link not available as copyright)</i>
The Local Government Act 2003 ( <a href="http://www.legislation.gov.uk/ukpga/2003/26/content">www.legislation.gov.uk/ukpga/2003/26/content</a> )

# Prudential and treasury indicators

## Appendix 1

<b>1. PRUDENTIAL INDICATORS</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>
<b>Extract from budget and rent setting report</b>	<b>Actual</b>	<b>Original</b>	<b>Actual</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Capital Expenditure</b>			
Non – HRA	1,373	17,306*	10,957
HRA	4,221	5,778	6,226
TOTAL	5,594	23,084	17,183
<b>Ratio of financing costs to net revenue stream</b>			
Non - HRA	-2.51%	-1.91%	-2.24%
HRA	32.63%	32.79%	32.82%
<b>Capital Financing Requirement as at 31 March</b>			
Non – HRA	-4,978	-1,293	-3,594
HRA	57,772	55,365	55,401
TOTAL	52,794	54,072	51,807
<b>Annual change in Cap. Financing Requirement</b>			
Non – HRA	-42	3,685	173
HRA	-3,544	-1,172	-1,203
TOTAL	-3,586	2,513	-1,030
<b>Incremental impact of capital investment decisions</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>
Increase in council tax (band D) per annum	5.45	26.37*	26.37*
Increase in average housing rent per week	2.99**	0.10	0.10

\* Increase largely due to L'ton L Centre build

\*\* Increase due to HRA acquisition / new build

<b>2. TREASURY MANAGEMENT INDICATORS</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>
	<b>Actual</b>	<b>Original</b>	<b>Actual</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Authorised Limit for external debt</b>			
Borrowing	73,000	66,000	66,000
Other long term liabilities	1,251	0	372
<b>TOTAL</b>	<b>74,251</b>	<b>66,000</b>	<b>66,372</b>
<b>Operational Boundary for external debt</b>			
Borrowing	70,000	63,000	63,000
other long term liabilities	1,251	0	372
<b>TOTAL</b>	<b>71,251</b>	<b>63,000</b>	<b>63,372</b>
<b>Actual external debt</b>	53,180	53,180	53,180
<b>Maximum HRA Debt limit</b>	81,630	81,630	81,630
<b>Upper limit expressed as a proportion of total interest earned:</b>			
Fixed interest rate exposure	100%	100%	100%
Variable interest rate exposure	40%	40%	40%
<b>Upper limit for total principal sums invested for over 364 days</b>	<b>26,000</b>	<b>26,000</b>	<b>26,000</b>

<b>Maturity structure of fixed rate borrowing - upper &amp; Lower limits</b>	<b>Actual at 31/03/18</b>	<b>lower limit</b>	<b>upper limit</b>
under 12 months	0%	0%	40%
12 months and within 24 months	16.66%	0%	40%
24 months and within 5 years	16.66%	0%	50%
5 years and within 10 years	0%	0%	60%
10 years and above	66.68%	0%	100%



## APPENDIX 2

**LIST OF AUTHORISED COUNTERPARTIES****Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years**

		<u>Long</u>	<u>Short</u>
		<u>Term</u>	<u>Term</u>
<b><i>Min Criteria</i></b>	<b>Fitch</b>	<b>AA-</b>	<b>F1+</b>
	<b>Moody</b>	<b>Aa3</b>	<b>P-1</b>
	<b>S&amp;P</b>	<b>AA-</b>	<b>A-1+</b>

All Local Authorities

DBS Bank Ltd (SING)  
 HSBC Bank plc (UK)  
 Oversea-Chinese Banking Corp Ltd (SING)  
 Svenska Handelsbanken (SW)  
 United Overseas Bank Ltd (SING)  
 National Bank of Abu Dhabi (U.A.E)

**Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years**

		<u>Long</u>	<u>Short</u>
		<u>Term</u>	<u>Term</u>
<b><i>Min Criteria</i></b>	<b>Fitch</b>	<b>A+</b>	<b>F1</b>
	<b>Moody</b>	<b>A1</b>	<b>P-2</b>
	<b>S&amp;P</b>	<b>A+</b>	<b>A-1</b>

Bank of Nova Scotia (CAN)  
 Goldman Sachs International Bank (UK)  
 Standard Chartered Bank (UK)  
 Qatar National Bank (Qatar)

**Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years**

		<u>Long</u>	<u>Short</u>
		<u>Term</u>	<u>Term</u>
<b><i>Min Criteria</i></b>	<b>Fitch</b>	<b>A-</b>	<b>F1</b>
	<b>Moody</b>	<b>A3</b>	<b>P-2</b>
	<b>S&amp;P</b>	<b>A-</b>	<b>A-1</b>

Barclays Bank plc (UK)  
 Deutsche Bank (GER)  
 Nationwide Building Society (UK)  
 Santander (UK)  
 Close Brothers (UK)

**Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year**  
**Building Society with Assets greater than £10 billion**

Coventry Building Society (UK)  
 Leeds Building Society (UK)  
 Skipton Building Society (UK)  
 Yorkshire Building Society (UK)

**Category 5 - Council's Bank**

NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Banking Group (Bank of Scotland/Lloyds)

**Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years**  
banks effectively nationalised by UK government

		<u>Long</u>	<u>Short</u>
		<u>Term</u>	<u>Term</u>
<b><i>Min Criteria</i></b>	<b>Fitch</b>	<b>BBB-</b>	<b>F3</b>
	<b>Moody</b>	<b>Baa3</b>	<b>P-3</b>
	<b>S&amp;P</b>	<b>BBB-</b>	<b>A-3</b>

Royal Bank of Scotland plc/National Westminster Bank plc (UK)(Nationalised)

**Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) MONEY MARKET FUNDS and Government Liquidity Funds**

Limit of £4million for each institution

CCLA Investment Management Ltd (Public sector deposit fund)	AAAmmf	Stable NAV
Deutsche Banking Group	Aaa -mf	Stable NAV
Federated Investors Ltd (Fitch Ratings)	AAAmmf	Stable NAV
Fidelity Investments International (Moody's Rating)	Aaa -mf	Stable NAV
Standard Life (Fitch Ratings)	AAAmmf	Stable NAV
Northern Trust	Aaa -mf	Stable NAV

**Category 8 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) – Enhanced Money Market Funds**

Limit of £4million for each institution

**Category 9 - Debt Management Office**

Debt management Account - NO LIMIT (UK Govt)

**Category 10 - Bonds issued by multilateral development banks - 5 Years**

Maximum investment £4 million

**Category 11 – Property Funds - 25 Years**

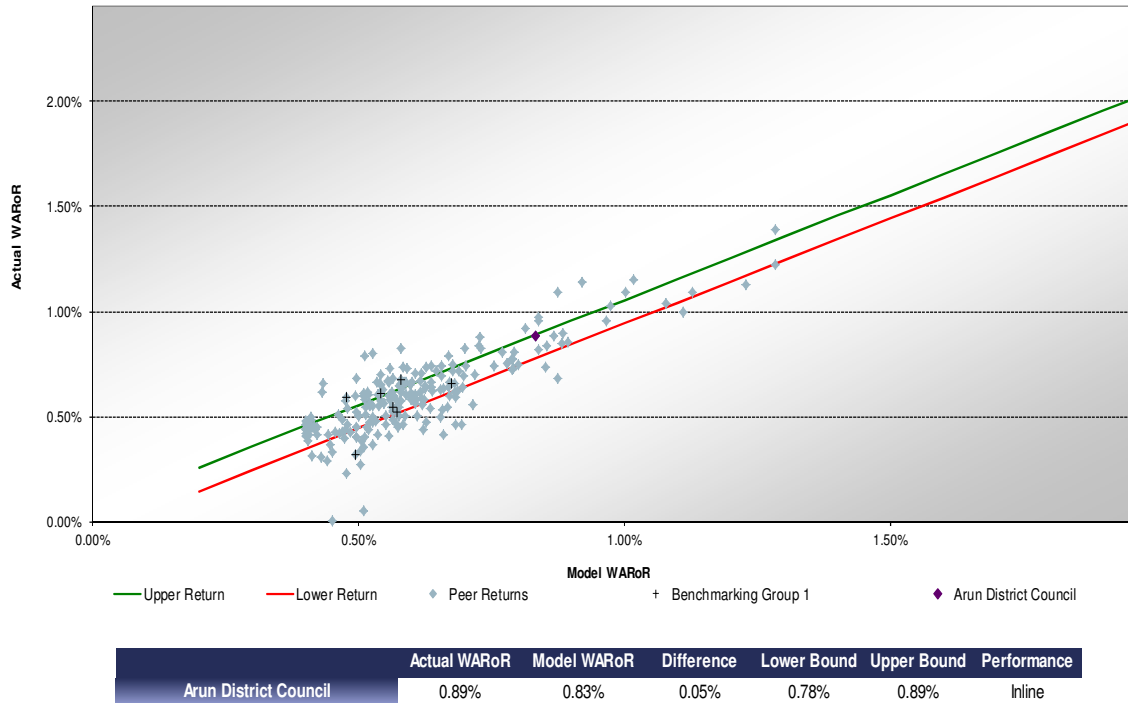
Maximum investment £6 million

CCLA



**Appendix 4**

Population Returns against Model Returns



The chart for reviewing performance to the end of March 2018 shows a cash portfolio weighted average rate of return of 0.89%. For the degree of duration and credit risk inherent to the portfolio this return falls within the anticipated range of 0.78% to 0.89%.

**AGENDA ITEM NO.13****ARUN DISTRICT COUNCIL****REPORT TO AND DECISION OF AUDIT & GOVERNANCE  
COMMITTEE  
ON 26 JULY 2018****PART A : REPORT****SUBJECT:** Counter-Fraud Report 2017/18**REPORT AUTHOR:** Stephen Pearse, Chief Internal Auditor**DATE:** July 2018**EXTN:** 37561**PORTFOLIO AREA:** Corporate Support**EXECUTIVE SUMMARY:**

The Audit & Governance Committee is the designated body for oversight of the Council's anti-fraud culture

As part of its agreed workplan, an annual report on counter-fraud activity is presented for consideration by the Committee

**RECOMMENDATIONS:**

Members of the Audit & Governance Committee are requested to note the report and to endorse the counter-fraud work performed by the Council in 2017/18

**1. BACKGROUND:****1.1 INTRODUCTION**

The Audit & Governance Committee is the designated body for oversight of the Council's anti-fraud culture.

Counter-Fraud activity within the Council was subject to substantial review in 2011 and was updated to reflect the publication by the National Fraud Authority (NFA) of its "Fighting Fraud Locally – The Local Government Fraud Strategy" document in March 2012.

Attached is the report updating the Committee on Counter-Fraud 2017/18, including a number of appendices of supporting information.

**1.2 POINTS TO NOTE**

CIPFA published a revised Code of Practice on managing the risk of fraud and corruption (late 2014) and work to assess the Council's position against this

document was undertaken in 2017 and reported to the Committee at its December 2017 meeting. As part of this work consideration was also given to the new Fighting Fraud & Corruption Locally strategy (published in 2016) and the UK Anti-Corruption Plan.		
<b>2. PROPOSAL(S):</b> It is proposed that the Committee notes the content of the report		
<b>3. OPTIONS:</b> To endorse the counter-fraud work performed by the Council in 2017/18, or not		
<b>4. CONSULTATION:</b> In preparing the report, the Housing Services Manager and the Revenues & Benefits Manager were consulted on the relevant activities performed within their areas		
Has consultation been undertaken with:	<b>YES</b>	<b>NO</b>
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	<b>YES</b>	<b>NO</b>
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
<b>6. IMPLICATIONS:</b>		

<b>7. REASON FOR THE DECISION:</b> The Committee notes the report and endorses the counter-fraud work carried out by the Council in 2017/18
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<b>8. BACKGROUND PAPERS:</b> N/A
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# Audit & Governance Committee

## Counter-Fraud Report 2017/18



## **Introduction**

CIPFA defines fraud as "the intentional distortion of financial statements or other records by persons internal or external to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain."

Similarly, in *The Investigation of Fraud in the Public Sector* (CIPFA, 1994) CIPFA defined corruption as "the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person." Furthermore, the Fraud Act 2006 has defined fraud in law for the first time, defining it in three classes:

- fraud by false representation;
- fraud by failing to disclose information; and
- fraud by abuse of position.

Fraud may be committed both from within the organisation and from outside it. Frauds may be complex or simple, opportunistic, pre-planned or continuous.

In June 2013, the National Fraud Authority estimated that fraud was costing the UK £52 billion a year. It estimated that the loss in the public sector was £20.6 billion, with £2.1 billion of this specific to local government (see Appendix 1). In the public sector, every pound lost through fraud directly affects citizens by increasing national and local taxation, or threatening the provision of local services. (At the present time, CIPFA advise that this remains the most reliable and comprehensive set of figures available).

The current financial climate has increased the likelihood of fraud being perpetrated against the Council. The Audit & Governance Committee has oversight responsibility for the anti-fraud culture within the Council and receipt of annual Counter-Fraud Report is included in the Committee's agreed workplan.

## **Fighting Fraud & Corruption Locally**

In 2016, CIPFA published "Fighting Fraud & Corruption Locally – the local government counter fraud and corruption strategy" (FFCL 2016). In the main, this document does not identify any significant new fraud areas from previous documents, but *"updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan."*

In the Executive Summary, the document:-

- *"calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment"*
- *"calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement"*
- *"sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause."*

It also states that:-

- *“it is now for elected members, chief executives, finance directors and all those charged with governance to ensure this strategy is adopted and implemented in their local authorities.”*

The document advises:-

*“In response to these challenges, local authorities will need to continue to follow the principles developed in Fighting Fraud Locally 2011 (FFL):*

- **Acknowledge:** *acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.*
- **Prevent:** *preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.*
- **Pursue:** *punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.”*

*“Our vision is that by 2019:*

- *there is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them*
- *by better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services*
- *local authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery*
- *local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses*
- *fraudsters will be brought to account quickly and efficiently and losses will be recovered.”*

With the past work performed on counter-fraud processes and specific high-risk areas, the Council is already well-aligned with the local elements of FFL. Internal Audit will continue to consider current and emerging fraud risk, both generally and in future Service area audits.

## **Chief Executive Statement**

The FFCL 2016 document repeats the 2011 message that *“acknowledgement must start at the top and lead to action”*. In response to this, the Council’s Chief Executive (Nigel Lynn) has affirmed that:-

**“This Council recognises that fraud is a significant issue nationally and that every successful fraudulent act places an additional financial burden on the honest residents and taxpayers of the District. In collaboration with both central government and our local partners, we will ensure that effective ongoing measures are in place to prevent, detect and pursue fraud against the Council.”**

## **Counter-Fraud Activities**

### ***General***

The Council is required to provide information on fraud arrangements, etc. in response to the annual request from the external auditors (Ernst & Young LLP), relating to the risks of, identification of and responses to fraud (relevant to ISA 240 – ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’).

The Council also participates in the annual (national) fraud survey conducted by CIPFA, which resulted in their ‘Fraud & Corruption Tracker summary report’ in 2017. The content of this report was drawn to the attention of senior management and the members of the Audit & Governance Committee

Various publications and briefings on fraud are held by the Council (e.g. from central government, CIPFA, etc.) and the guidance and recommendations in these documents has been used as a basis for counter-fraud work by Internal Audit.

Arun District Council has a ‘zero-tolerance’ policy towards fraud and is committed to the prevention, detection and investigation of fraud and corruption. It is expected that all those who work for, serve or deal with the Council will act in a fair and honest way.

The Council has a specific Anti-Fraud, Corruption & Bribery Policy, including the requirements of the Bribery Act 2010, which was adopted by Full Council in October 2013. (This policy will require review and update in 2018, once Constitution, Code of Conduct and structure changes have been completed). There are also other policies and procedures that support and promote this.

There is also a published Fraud Response Plan, which has been reviewed / updated and the changes noted by the Audit & Governance Committee in December 2017.

The Council’s Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998) was reviewed / updated in 2017 and is published on the Council’s web site.

The Fighting Fraud Locally strategy recommended that Councils publicise the risks of fraud and encourage public response. Information on the key fraud risk areas facing the Council and contact numbers for members of the public to report suspected fraud cases / concerns is set up as a ‘Fraud’ area on the Council’s web site. A small number of articles in relation to fraud (e.g. Single Person Discount) have also been provided by the Council for publication in the local press and updates have been provided to Members (e.g. in respect of the housing tenancy fraud pilot).

No fraud and / or corruption investigations have been carried out during the year in respect of Members, under the Code of Conduct.

### ***Benefits Investigations***

Until December 2015, the Council had a small dedicated Benefits Investigations team handling benefit-related fraud and investigations. Under the Welfare Reform Act 2012, benefits investigations were centralised into a ‘Single Fraud Investigation Service’ operated under the control of the DWP, although the Council is still required to provide data to support DWP investigations. Members of the public are still encouraged to report suspected incidents of fraud

via the National Benefit Fraud Hotline or through a link to the appropriate www.gov.uk pages on the Council's website.

### ***Housing Tenancy***

As advised in past reports, housing tenancy fraud is an area of significant concern to the Government and this is now a criminal offence under the Prevention of Social Housing Fraud Act 2013.

The Council has over 3300 properties in its social housing stock. In 2017, following a successful pilot exercise, a dedicated Housing Fraud Investigator post (funded through the Housing Revenue Account) has been added to the Council's structure on a permanent basis. In addition to investigating active fraud leads, the Investigator's remit includes prevention, working with other areas of Housing in respect of:-

- the verification process for acceptance to the Housing Register
- the process for verifying Right To Buy entitlement to purchase Council properties
- exchange and succession requests.

The arrangement continues to be successful and of considerable benefit to the Council, (in 2017/18):-

- 15 properties brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit (3 of these had been sub-let to other family members)
- 1 inappropriate Right To Buy applications refused
- 4 inappropriate applications to the Housing register prevented.

(Prevention of housing tenancy fraud allows the placement of new tenants from the Housing Register and potentially reduces emergency B&B costs – the industry standard indicative notional 'value' attached to this is now £93k per property recovered).

Council staff attend meetings of the Sussex Tenancy Fraud Forum and Housing management will continue to consider improvements in how potential fraud cases may be identified and investigated in the future. This may involve additional publicity in respect of the issue, additional visits to Council properties and further liaison with local social housing providers. The Council is also a member of the National Anti-Fraud Network (NAFN) and appropriate information may be obtained from them to assist in investigations work.

### ***Other Investigations***

Other than the two above areas, all other fraud work is the responsibility of Internal Audit (except for any electoral fraud issues, which are handled by the Returning Officer / Police).

### ***National Fraud Initiative***

The Council is a mandatory participant in the National Fraud Initiative (NFI), now operated by the Cabinet Office. This is a data matching exercise that involves comparing records held by one body against other computer records held by the same or another body to see how far they match. An example would be comparing Arun District Council Housing Benefit claimants with the licensed taxi drivers recorded by other Councils.

In 2017, the Council continued with its review of the reports received based upon the data provided to the Cabinet Office in October 2016 (covering a wide range of areas e.g. housing, licensing, payroll, creditors, etc.) which resulted in some minor tenancy and invoice / VAT queries referred to Housing and Finance staff respectively.

Work on the NFI Council Tax Single Person Discount review (based upon data provided in October / December 2016) was completed in 2017. However, this overlapped the exercise that Revenues had undertaken in 2016/17 using external credit reference data (as reported last year) and the NFI exercise only resulted in a further re-billing of c.£10k.

In December 2017, Council Tax and Electoral Roll data was also provided for annual Council Tax SPD entitlement checking and queries on the reports received are awaiting review. This work has been delayed owing to the significant numbers of potential deletions to be made to the Electoral Roll which are being worked on by Electoral Services staff (following significant numbers of changes to voter records from the EU Referendum, the UK general election and the 2017 annual canvass). Once this work has been completed, a revised register will be used to identify cases in the NFI reports which can be removed and the remaining cases will then be reviewed.

### ***Other Revenues Activity***

The Council's Revenues area also undertakes a number of other checks in order to reduce the risk of fraud in respect of the eligibility for Council Tax and Non-Domestic Rates (NDR) exemption or reduction. These include:-

- inspection of empty business rated properties
- review of mandatory and discretionary NDR discounts
- review of entitlement to Council Tax exemptions and other discounts
- inspection of residential properties that have been empty for more than 2 years
- contact by the Empty Homes Officer with homeowners where the property has been empty for 6-18 months.

In respect of the last 2 points, a further 75 properties had the 'empty' status removed in 2017/18 (with over 200 in the last 3 years) which will result in additional New Homes Bonus income.

### **Local Government Transparency Code**

The Local Government Transparency Code, *'issued to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services'* was extended in 2014 to include fraud information.

The Council must now publish certain information on its counter fraud work on an annual basis and this will contain some information that is covered in more detail in this report (see Appendix 2 – which is published on the Council's website).

### **Future Activities**

Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone cannot guarantee that fraud or corruption will be detected.

Internal Audit (or the Housing Fraud Investigator for tenancy-related cases) should be informed of all suspected or detected fraud, corruption or improprieties for investigation and to allow the effectiveness of any relevant controls to prevent / detect such cases to be reviewed. The implications of any identified fraud and corruption will also be assessed against the Council's

overall governance arrangements. Internal Audit provides an annual opinion on the adequacy and effectiveness of the systems of internal control operating within the Council and any identified cases of fraud or corruption may influence this opinion.

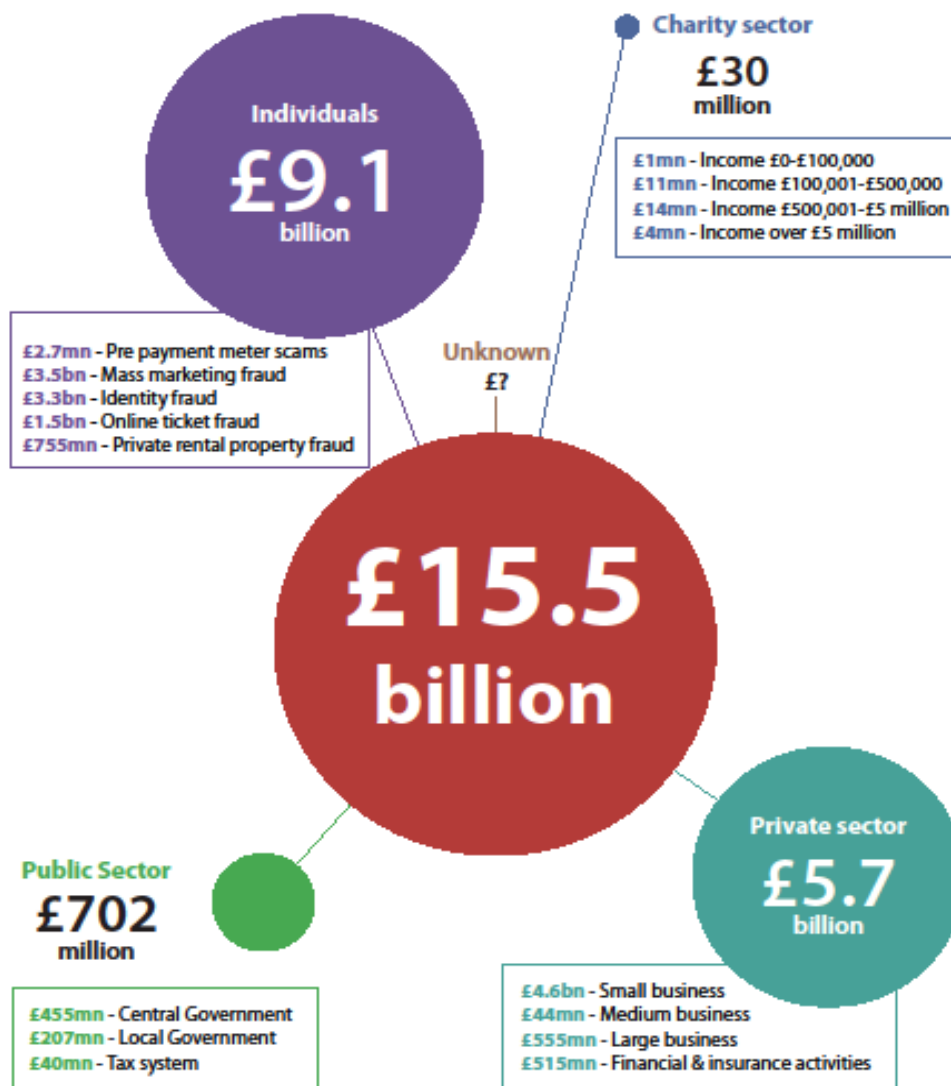
Further to the publication of CIPFA's Code of Practice on Managing the Risk of Fraud & Corruption and the revised Fighting Fraud & Corruption Locally strategy, the Council will consider the content and the actions to be taken in the coming years and:-

- will monitor the progress of national initiatives and engage in the various consultations that will be required to implement the strategy
- will continue to examine reports on initiatives undertaken at other local authorities, together with published guidance and advisory documents, to ensure that lessons learnt and emerging fraud risks are considered as part of our counter-fraud activities
- will continue to assess our current activities against the best practice contained in the strategy for local consideration and ensure that our counter-fraud activities are as effective as possible
- will ensure that appropriate counter-fraud measures remain in place in service areas impacted by the management / operational restructures that have taken place as part of the Council's Vision 2020 initiative.

A significant amount of counter-fraud work is already performed by the Council and further work will be undertaken in high-risk areas (such as Council Tax and Housing), in addition to the continual consideration of emerging fraud risks and assessment of the Council's policies and procedures against best practice and appropriate guidance notes.

Annual Fraud Indicator 2013

Figure 1: Identified fraud loss estimates by victim

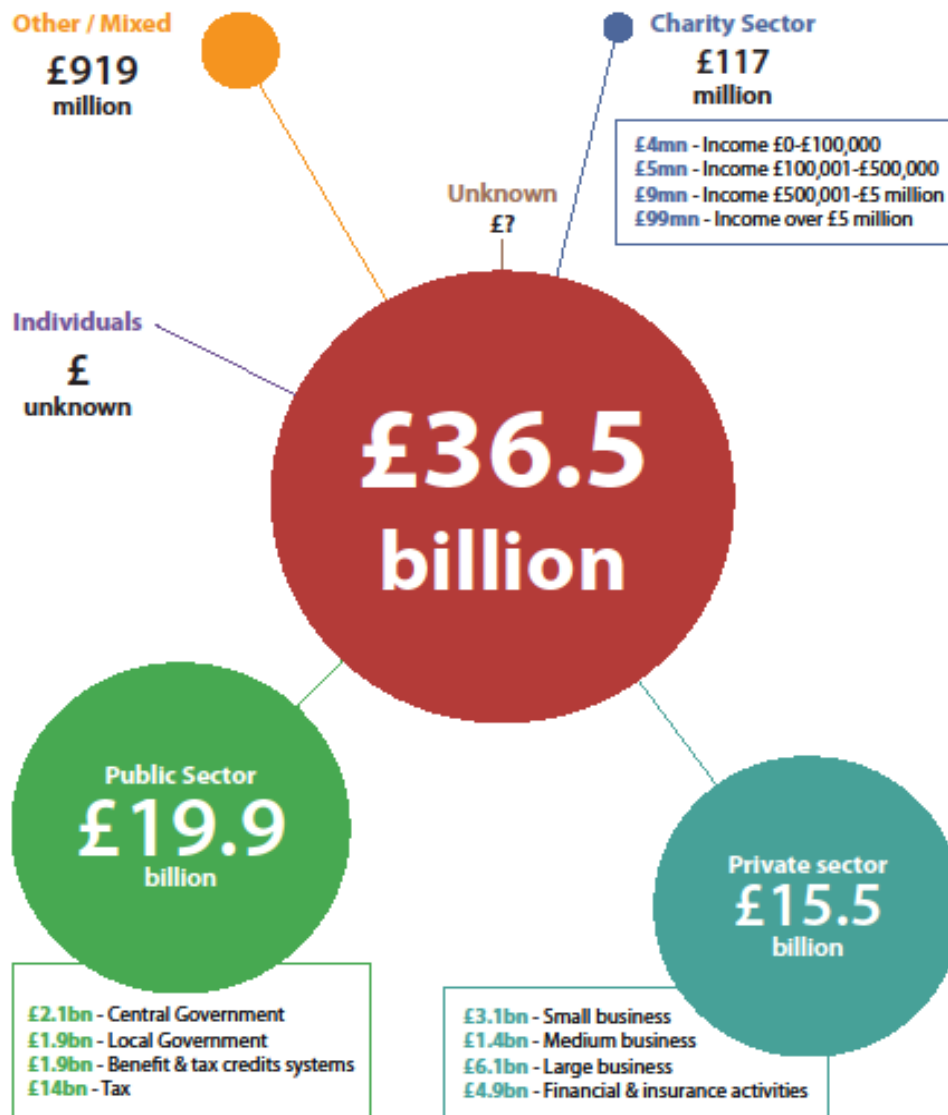


N.B: The identified fraud loss estimates include both identified fraud losses and estimates that have been extrapolated to sectors. It is not always possible to clearly demarcate fraud types to identified and hidden fraud losses as some estimates spread across both.

The identified fraud loss figures are likely to be an under estimate in some areas where the NFA have not been informed of detected losses, therefore, fraud losses are unknown, rather than zero or not present. See annex 2 for fraud by type breakdown.

Please note figures may not add up exactly due to rounding.

Figure 2: Hidden fraud loss estimates by victim



N.B: It is not always possible to clearly demarcate fraud types to identified or hidden fraud losses as some estimates spread across both. The hidden fraud loss estimate therefore includes those estimates that bridge both hidden and identified fraud losses (see annex 2).

See overleaf and annex 2 for a breakdown of losses within victim type.

Please note figures may not add up exactly due to rounding.



## Annex 2: Breakdown of losses by victim

Fraud loss by victim sector	Victim	Fraud type	Total estimated fraud loss	Fraud loss	Identified loss	Hidden loss
Public Sector £20.6 billion	Tax system	Tax fraud	£14.0 billion	£14.0 billion	£1.4 billion	Unknown
		Vehicle excise fraud		£40 million	£40 million	Unknown
		Procurement fraud		£1.4 billion	£1.4 billion	Unknown
		Grant fraud		£504 million	£504 million	Unknown
		Television licence fee evasion		£204 million	£204 million	Unknown
		Payroll fraud		£181 million	£181 million	Unknown
	Central government	NHS patient charges fraud		£156 million	£156 million	Unknown
		NHS dental charge fraud		£73 million	£73 million	Unknown
		Student finance fraud		£31 million	£31 million	Unknown
		Pension fraud		£14 million	£14 million	Unknown
		National Savings and Investments fraud		£0.40 million	£0.40 million	Unknown
		Housing tenancy fraud		£845 million	£845 million	Unknown
		Procurement fraud		£876 million	£876 million	Unknown
		Payroll fraud		£154 million	£154 million	Unknown
Local government	Council tax fraud		£133 million	£133 million	Unknown	
	Blue Badge Scheme misuse		£46 million	£46 million	Unknown	
	Grant fraud		£35 million	£35 million	Unknown	
	Pension fraud		£71 million	£71 million	Unknown	
Benefit and tax credits systems	Benefit fraud		£1.2 billion	£1.2 billion	Unknown	
	Tax Credits fraud		£670 million	£670 million	Unknown	

\*Black, red, amber, green (BRAG) Assessment: Confidence Indicator

BRAG	Level of confidence
Black	Poor
Red	Average
Amber	Good
Green	Excellent

Note:

Perceived level of confidence is based upon management assumptions and judgement to provide an illustrative indication of the quality of data available to produce an estimate.

NB: It is not always possible to demarcate clearly the fraud by type estimates to identified or hidden losses as some estimates spread across both. Further, it should be noted that fraud identified as being 'unknown' does not mean that no fraud exists, but rather that no fraud has been identified, measured or is estimable. Not all fraud types are included in the breakdown due to the possibility of double counting. Due to rounding some figures may not add up exactly.

## Appendix 2

**Counter-Fraud for data transparency**

S43 of the Local Government Transparency Code 2014, requires local authorities to publish information about their counter fraud work.

The attached figures cover the period 1/4/2017 – 31/3/2018.

**Number of occasions powers were used under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers**

- Internal Audit Not used
- Revenues Not used
- Benefits Not used
- Housing 12

**Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud**

- Internal Audit One employee (approx. 0.1 FTE) may be involved in investigations that could relate to fraud and also reviews potential fraud cases from annual National Fraud Initiative (NFI) reports received
- Benefits Investigations staff were transferred to the DWP SFIS in December 2015  
One employee (0.65 FTE) is now engaged in a fraud liaison role
- Housing Housing Fraud Investigator (1 FTE)
- Legal Services No prosecutions in 2017/18

**Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists**

- Internal Audit None
- Benefits None
- Housing 1

**Total spent by the authority on the investigation and prosecution of fraud**

- Internal Audit c. £5k (based upon staff time)
- Revenues c. £2.5k (additional review of NFI reports)
- Housing c. £42k (staff time, appropriate subscriptions and fees,  
etc.)

**Total number of fraud cases investigated**

- Internal Audit General review of NFI reports only
- Revenues Information provided for 'joint' review by DWP – 180  
Council Tax Reduction cases reviewed by the Council – 6  
Other cases - 2
- Housing 15 properties brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit  
1 inappropriate Right To Buy applications refused  
4 inappropriate applications to the Housing register prevented.

**Appendix 2**

It should be noted that more detailed information on the Council's counter-fraud activities is presented to the Audit & Governance Committee in July, covering the previous financial year. A copy of this report is provided on the Data Transparency web page. <http://www.arun.gov.uk/transparency>

**AGENDA ITEM NO. 14****ARUN DISTRICT COUNCIL****REPORT TO AND DECISION OF AUDIT & GOVERNANCE  
COMMITTEE  
ON 26 JULY 2018****PART A : REPORT**

<b>SUBJECT:</b> Chairman's Annual Report To Full Council 2017/18
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<b>REPORT AUTHOR:</b> Stephen Pearse, Chief Internal Auditor <b>DATE:</b> July 2018 <b>EXTN:</b> 37561 <b>PORTFOLIO AREA:</b> Corporate Support
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**EXECUTIVE SUMMARY:**

To present the draft Chairman's Annual Report To Full Council for agreement by the Committee

**RECOMMENDATIONS:**

Members of the Audit & Governance Committee are requested to endorse the content of the report and to recommend its presentation to Full Council by the committee Chairman

**1. BACKGROUND:**

The Chartered Institute of Public Finance & Accountancy (CIPFA) recommends that an annual self-assessment is performed covering the effectiveness of the Audit Committee. The updated self-assessment will be presented to the Committee as part of another item at this meeting.

One of the assessment criteria included is:-

"Does the committee publish an annual report to account for its performance and explain its work?"

The first such report was prepared and presented to Full Council in 2012.

In collaboration with the Chairman of the Audit & Governance Committee, the attached annual report has been drafted for consideration and covers the activities of the Audit & Governance Committee through the 2017/18 Municipal Year.

**2. PROPOSAL(S):**

It is proposed that the Committee endorses the content of the report and recommends its presentation to Full Council

**3. OPTIONS:**

To endorse the content of the report and to recommend its presentation to Full

Council, or not		
<b>4. CONSULTATION:</b>		
Has consultation been undertaken with:	<b>YES</b>	<b>NO</b>
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	<b>YES</b>	<b>NO</b>
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
<b>6. IMPLICATIONS:</b>		

<b>7. REASON FOR THE DECISION:</b> The Committee endorses the content of the report and recommends its presentation to Full Council
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<b>8. BACKGROUND PAPERS:</b> N/A
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# Audit & Governance Committee

## Chairman's Annual Report To Full Council 2017/18

## **Introduction**

Both Central Government and the Chartered Institute of Public Finance & Accountancy (CIPFA) promote the view that certain governance related functions would be best delivered by an audit committee – which is separate from the ‘executive’ and ‘scrutiny’ functions of a local authority.

This is the annual report to Full Council of the Audit & Governance Committee. The Council’s Audit Committee was constituted by the Council in May 2006 and became the Audit & Governance Committee in June 2011, following the disbanding of the old standalone ‘Governance’ Committee in March 2011. The Committee complies with the best practice guidance, as set out in the ‘CIPFA Role of Audit Committees in Local Government’, and operates to Terms of Reference agreed by Full Council and included in the Council’s published Constitution. (As part of the ongoing review of the Constitution, revised terms of reference were approved in January 2018).

The Audit & Governance Committee provides independent assurance and challenge on the effectiveness of the Council’s overall corporate governance and internal control environments. This includes the associated approach to risk management and independent scrutiny of the Council’s financial and non-financial performance, to the extent that it affects the authority’s exposure to risk and weaknesses in the control environment, as well as to oversee the financial reporting process and approve the Annual Statement of Accounts.

The role of the Audit & Governance Committee is distinctly different from the role of the scrutiny function. Its role, in short, is to provide assurance to Members and to the public that there are controls in place to mitigate key risks and that the Authority, including the scrutiny function, is operating effectively in terms of overall governance.

The Committee carries out its function by monitoring, challenging and providing assurance on a number of matters relating to internal and external audit, financial reporting, risk management, corporate governance and compliance issues. It is important that the Committee is able to demonstrate the impact of its work to Members and to the public.

Membership of the Committee is decided annually by Full Council and follows the requirements for political balance. However, it is emphasised that the role of the Committee should be both objective and apolitical. While continuity of membership is important, as much of the work of the Committee operates to an annual cycle, it is also beneficial for there to be some change in order to generate different challenges and opinions. Where membership changes have taken place in each Municipal Year, Member training and updates have been provided by Internal Audit and the Group Head of Corporate Support.

In 2010, the role of the Committee was expanded to include oversight of the Council’s Treasury Management processes and, since June 2011, the Committee also has responsibility to receive, consider and make recommendations to Full Council on the submissions of the Independent Members’ Remuneration Panel.

As part of the changes to the terms of reference for the Committee in 2017, an additional function has now been added in respect of the review and scrutiny of any Council owned companies and Cabinet's role in overseeing this activity.

The Committee strives to be proactive in seeking assurance on a range of issues, rather than just accepting assurance where it is given. Committee Members have demonstrated commitment to the process, contributing to a level of continuity of approach and building up expertise of Members, in often complex areas. The Committee takes the position of encouraging all Members and Officers (particularly Managers) to take responsibility for contributing to effective corporate governance, with the aim of embedding governance as a concept in the organisation.

Meetings of the Committee have traditionally started at 9.30am and this has prevented some councillors from being nominated for the Committee and, in some cases, members appointed to the Committee from attending meetings due to other commitments. In order to address this, the Chairman has agreed with the Leader that meetings in 2018 will start at 6.00pm, allowing a significantly wider range of Councillors to be available for nomination and thus to maximise Member contribution to meetings.

Representatives of the Council's external auditors (Ernst & Young LLP) are also invited to attend and to present their key documents. This provides the opportunity to present matters to the Committee, aiding consistency of message and wider awareness of respective views and challenge.

The Committee agrees its ongoing work plan and has scheduled meetings through the year (but these may be supplemented by 'special' meetings of the Committee and meetings held by 'task and finish' working groups, set up for specific purposes). Up to 2017 meetings were held on a quarterly basis, but from 2018 the reporting timescales for the Council's annual Accounts have been shortened and it is planned that three meetings will now be held each year to coincide with the key decision / document approval dates. The standing invitation to the appointed external auditor to attend meetings of the Committee, allows observation of the level of challenge and assurance that the Committee provides on governance, financial reporting and audit issues.

All matters brought before the Committee have been subject to robust challenge, but the Committee has also had an input into the progress of issues, through active discussion and by making practical suggestions for improvement. The Committee has adopted a practice of accepting assurance only when fully satisfied. Detailed below is a breakdown of areas that the Committee has considered during the 2017/18 municipal year (in Appendix 1).

## **Internal Processes**

### **Governance**

The Committee received regular updates throughout the year on the overall approach adopted to secure effective arrangements for the Council and, in particular,



progress on areas identified for action from external inspections. This has provided the Committee with the opportunity to challenge, and have an input into:-

- review of the Council's updated local Code of Corporate Governance;
- the corporate governance framework;
- the assurance framework;
- updates to governance-related Council policies.

The Committee considered and provided challenge to the Annual Governance Statement, prior to its approval in June (draft) and in September 2017 (final version) and also to the Council's revised Code of Corporate Governance. It should be noted that the documents presented in 2017 were the first to be prepared under the revised Delivering Good Governance in Local Government Framework received from CIPFA.

### **Counter Fraud and Corruption**

The Audit & Governance Committee, as part of its terms of reference, is required to consider the counter-fraud and corruption arrangements of the Council and their effectiveness.

At its meeting of 29 June 2017, the Committee was presented with the annual formal Counter-Fraud progress report, covering the year 2016/17. This included details of work performed on Council Tax Single Person Discount entitlement, housing tenancy fraud and the Cabinet Office National Fraud Initiative.

### **Risk Management**

The Council's updated Risk Management Strategy document and Strategic Risk Register were presented to the Committee in December 2017. Consideration of the relevant documents and issues confirms a top-level commitment to the risk management agenda and allows the Audit & Governance Committee to make assessments and provide assurance on the Council's risk management arrangements.

### **Financial Reporting**

The Council's Group Head of Corporate Support and other members of the Finance department attended meetings and presented reports relating to the Statement of Accounts and the Treasury Management function throughout the year. The Committee was able to challenge these reports and was assured that due process was being followed and best practice had been applied. Officers were able to provide further clarification on a number of issues raised by Members to aid the Committee in reaching its conclusions and decisions

In particular, the Council has delegated to this Committee the task of formally approving the Accounts by the statutory deadline each year. (2017 was the last year when this deadline was 30<sup>th</sup> September and from 2018 changes to regulatory requirements mean it has been brought forward to 31<sup>st</sup> July).

The 2016/7 Annual Accounts were approved by the Committee, having received an unqualified opinion from Ernst & Young LLP, and signed by the Chairman. It was noted that the arrangement for work on General Fund assets to be performed for the Council by Chichester District Council had been terminated. Following a competitive

tendering exercise in 2017, General Fund asset and HRA valuations are now undertaken by an external valuer appointed by the Council.

In 2009/10, the Committee was required to consider significant changes to the Treasury Management arrangements of the Council. These primarily focused on the change in accountability and reporting on decisions of overall Treasury Management policy and the setting of the annual Treasury Management Strategies, which have been taken out of the control of the executive (i.e. the Cabinet) and must now be determined by Full Council. All prudential matters relating to borrowing, investments and debt repayment are now determined by Full Council, with the responsibility for scrutiny of performance in this area being delegated explicitly to the Audit & Governance Committee.

In 2012, the Council arranged the borrowing of £70.9M to be paid as a one-off debt settlement to the DCLG in March 2012, in respect of Government changes to make the Housing Revenue Account self-financing in Local Authorities. The first tranches of this loan have been repaid by the Council (outstanding debt now stands at £53.18M), with the next tranche due for repayment in 2020.

The Committee continues to monitor the situation with regard to Council borrowing. (There may be a future borrowing requirement to allow the progress of the Housing Revenue Account Business Plan 2017-2027 and / or to facilitate the progress of the Bognor Regis regeneration proposals, as approved by the Council). A briefing on the current and predicted national financial situation was presented to the Committee by Link Asset Services (the Council's treasury management advisors - formerly known as Capita Asset Services) at its December 2017 meeting.

## **Independent Assurances/Audit**

### **External Audit and Inspection**

Ernst & Young LLP are the Council's current appointed external auditors and the external audit work covers the full range of audit and inspection, including providing an opinion on the financial statements and forming an assessment of the corporate arrangements for 'value for money' covering:-

- securing financial resilience
- securing economy efficiency and effectiveness.

Reports to the Committee ('those charged with governance') arising from external review include the Audit Plan, Audit Results Report and Annual Audit Letter. These are subject to discussion and challenge by the Committee with the representatives of the external auditors in attendance at Committee meetings.

The Council had previously opted-in to the sector-led approach set up by central government for the appointment of its external auditors at the end of the transition period (following the abolition of the Audit Commission). The Government-appointed body (PSAA Ltd.) undertook a national procurement exercise and the contracts for the next 5 years have now been let with a reduction in fees being charged. As a

result of this, Ernst & Young LLP has been appointed to continue as the Council's external auditors from 2018/19.

It should however be noted that this appointment only covers the work being performed on the Council's annual Accounts. Further discussions are being held by officers in order to progress an appropriate arrangement involving the Council, the DWP and an appointed reporting accountant for the annual certification of the Council' Housing Benefit Subsidy Claim.

### **Internal Audit**

Under the Accounts and Audit Regulations 2015, the Council is required to "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."

Assessment is undertaken against criteria published by CIPFA and presented to the Committee for consideration. The Committee was able to support the judgement on the effectiveness of the system of Internal Audit and also confirmed that Internal Audit has continued to provide a quality service to the Council, with the assessment being certified by the Chairman of the Committee and the Council's Group Head of Corporate Support.

From 1<sup>st</sup> April 2013, CIPFA replaced its Code of Practice for Internal Audit with the Public Sector Internal Audit Standards (which are based on the mandatory elements of the Institute of Internal Auditors, International Professional Practices Framework). This has been reflected in the Internal Audit Charter, with the changes approved by the Committee in past years.

Internal Audit also performs an assessment of the effectiveness of the Audit & Governance Committee and any changes / improvements that could be made, based upon CIPFA criteria. This report was presented for consideration and certified by the Chairman of the Committee.

Throughout the year, Internal Audit provides a number of key documents for the Committee to consider and Approve or Note. These include:-

- the Annual Internal Audit Plan (February)
- the Internal Audit Annual Report & Opinion (June in 2017, but will be July in future years)
- periodic reports of progress against the Audit Plan
- periodic reports summarising findings from Internal Audit reports issued.

As reflected in the Internal Audit Charter and Annual Plan, the Internal Audit service needs to be flexible, with the ability to respond to changes and new challenges to the Council, as and when required.

The Committee received the annual performance reports for Internal Audit for the year and were provided with assurance that appropriate action plans had been put in place to improve the Council's control environment and confirmed that this

assurance was reflected within the Council's published Annual Governance Statement.

## **Members' Allowances**

In March 2011, the Council's Governance Committee was disbanded and the responsibility to receive, consider and make recommendations to Full Council on the submissions of the Independent Members' Remuneration Panel passed to the Audit & Governance Committee from June 2011.

The next review by the Panel was delayed pending the outcome of the Council's Vision work, including the management and operational restructures that have taken place. A revised timetable has been drafted and the review will now take place in 2018, in the run-up to the 2019 District elections.

## **Council Owned Companies**

In 2017, the Council gave consideration to the establishment of a local property company. With the assistance of external advice, a private limited company (Trisanto Development Corporation Ltd.) was registered at Companies House. Although a business case was progressed, members of the Committee were concerned that this left a number of unanswered questions and that the Council was proposing to provide a significant financial sum to allow start-up of the company and for it to commence trading, although these initial sums would not actually result in the purchase or building of property.

A special meeting of the Audit & Governance Committee was called in August 2017 at which the members worked through the risk register for the company and raised questions on this and the business case to the Director of Place and the Housing Strategy & Delivery Manager who had been responsible for its progress and were the initial officers of Trisanto approved by the Council.

As a result of this meeting, the Committee recommended to Full Council that the risk register for the company (which members had worked through in some detail) be noted, but that the approval of the business case should be deferred pending receipt of other supporting documents. These recommendations were then considered at Full Council on 13<sup>th</sup> September 2017, along with a number of recommendations from a special Cabinet meeting – while Full Council generally supported the establishment of the company and the majority of Cabinet's recommendations were approved, it was agreed that more thought was required regarding the provision of the substantial working capital to allow the company to commence transacting and that this would be deferred to a future meeting of the Council.

## **Chairman's Summary**

Following the May 2018 Annual Council meeting, I am pleased to have again been appointed as Chairman for the 2018/19 Municipal Year and will ensure that the

Committee continues to perform its duties as delegated by the Council and mandated through governance requirements and best practice.

Based upon the work of the Audit & Governance Committee during 2017/18, I am satisfied that it has again provided effective challenge across a range of governance related issues upon which it can provide assurance to the Council and to the Cabinet. The Committee has demonstrated leadership on governance, financial reporting and audit issues. The Committee also is effective in providing an additional source of assurance to the Group Head of Corporate Support (s151 Officer of the Council) that systems of internal control are working effectively and that Internal Audit is operating in accordance with the Public Sector Internal Audit Standards.

I have reviewed the CIPFA requirements relating to Internal Audit and the work of the Committee and consider that the arrangements in place remain appropriate. The level of challenge provided by the Committee contributes to Members and Officers giving due significance to governance and control matters. An additional role of the Committee continues to be to provide suggestions for continual improvement on a number of matters and to be supportive of Council staff, showing appreciation where merited.

Finally, I offer my thanks and appreciation to all members of the Committee for their proactive contributions which have continued to facilitate constructive, apolitical challenge. This input has enabled the Committee again this year to be effective and confident in providing assurances to the Council. Also, on behalf of the Committee, I would like to thank all Members and officers who have helped us to carry out our role, the Committee Manager for the preparation, advice and minuting of meetings and the representatives of Ernst & Young LLP for their constructive engagement, contributions and responses.

.....  
Councillor Terence Chapman,  
Chairman of the Audit & Governance Committee

**APPENDIX 1****Audit & Governance Committee – Activities Performed in Year 2017/18**

<b>Meeting Date:</b>	<b>Item:</b>	<b>Action:</b>	<b>Notes:</b>
<b>Governance Framework</b>			
29 June 2017	Local Code of Corporate Governance for 2017/18	Changes endorsed	Published on Council website
29 June 2017	Annual Governance Statement 2016/17	Approved	Published on Council website to accompany the Annual Accounts
<i>The local Code of Corporate Governance and Annual Governance Statement for this year were the first prepared against the revised CIPFA Code</i>			
29 June 2017	Counter-Fraud Report 2016/17	Endorsed	
29 June 2017	Council's Use of the Regulation Of Investigatory Powers Act 2000 (RIPA)	Endorsed	Nil for 2016/17 Municipal Year
7 December 2017	Updates to the Risk Management Policy Statement & Strategy	Noted	
7 December 2017	Updates to the Strategic Risk Register	Approved	
28 September 2017	Governance & Risk Group Update	Noted	
<b>Internal Audit Activity</b>			
29 June 2017	Internal Audit Annual Report & Opinion 2016/17	Endorsed	
7 December 2017	Updates To Internal Audit's Fraud Response Plan	Noted	
29 June 2017 28 September 2017 7 December 2017 22 February 2018	Progress Against the Internal Audit Plan	Noted	Questions raised with the Chief Internal Auditor at the meeting
28 September	Summary Of Findings From Reports Issued	Noted	

2017 7 December 2017 22 February 2018			
28 September 2017 22 February 2018	Revised Annual Audit Plan 2017/18 Annual Internal Audit Plan 2018/19	Noted Approved	
<b>External Audit and Inspection</b>			
22 February 2018	Ernst & Young – Audit Planning Report	Noted	
29 June 2017	Compliance with International Auditing Standards – correspondence with Ernst & Young LLP	Noted	
29 June 2017	Annual Fee Letter 2017/18	Noted	
28 September 2017	Report to ‘Those Charged With Governance’ (Audit Results Report – ISA260) and Progress Report	Noted and Draft Letter of Representation signed	
7 December 2017	Annual Audit Letter	Noted	
22 February 2018	Certification Of Claims & Returns – Annual Report 2016/17	Noted Endorsed the comment on the excellent performance of the Benefits Subsidy Team	
<b>Statement of Accounts</b>			
29 June 2017	Approval of Accounting Policies	Resolved – to be applied to Statement of Accounts for 2016/17	Requirement of the external auditors in support of the Statement of Accounts
22 February 2018	Approval of Accounting Policies 2017/18	Resolved – to be applied to Statement of Accounts for 2017/18	Requirement of the external auditors in support of the Statement of Accounts

28 September 2017	Statement of Accounts 2016/17	Approved and signed	Presented by the Financial Services Manager
<b>Treasury Management</b>			
29 June 2017	Treasury Management Annual Report 2016/17	Recommend to Full Council that the report be Noted, that the actual prudential and treasury indicators be approved	
28 September 2017	Treasury Management – Quarter 1 Report 2017/18	Noted and Recommended to Full Council that indicators be approved	
7 December 2017	Treasury Management – Quarter 2 Report 2017/18		
22 February 2018	Treasury Management Strategy Statement and Annual Investment Strategy 2018/19	Recommend approval to Full Council	
<b>Committee Working Arrangements</b>			
29 June 2017	Audit & Governance Committee Annual Workplan	Approved	'Living' document – progress to be noted through the year
7 December 2017	Draft Future Workplan	Approved To be standing agenda item	Future workplan, revised for Committee dates in 2018-on to meet revised accounting timescales
29 June 2017	Chairman's Annual Report to Council 2015/16	Recommended for approval by Full Council	Presented to Full Council 12 July 2017
7 December 2017	Review Of The Terms Of Reference For The Audit & Governance Committee	Recommended for approval by Full Council	
<b>Other</b>			



28 September 2017 7 December 2017	Changes to the Arrangements for the Appointment of External Auditors		Updates on the sector-led appointment process for 2018/19-on Ernst & Young LLP centrally awarded a further 5-year contract
<b>Council Owned Companies</b>			
7 August 2017	Special Meeting To Consider The Governance Arrangements For The Proposed Local Property Company (Risk Register and Business Case)	Recommended to Full Council:- - risk register be noted - approval of the Business Case be deferred, awaiting additional information	
28 September 2017	Committee update on outcomes from subsequent Full Council meeting		
<b>Independent Members' Remuneration Panel</b>			
22 February 2018	Members' Allowances – Progressing The Next Review and Extension Of Appointments For The Independent Panel	Approach noted Terms of office extended	

**AGENDA ITEM NO.15****ARUN DISTRICT COUNCIL****REPORT TO AND DECISION OF AUDIT & GOVERNANCE  
COMMITTEE  
ON 26 JULY 2018****PART A : REPORT****SUBJECT:** Internal Audit Annual Report & Opinion 2017/18**REPORT AUTHOR:** Stephen Pearse, Chief Internal Auditor**DATE:** July 2018**EXTN:** 37561**PORTFOLIO AREA:** Corporate Support**EXECUTIVE SUMMARY:**

Internal Audit discharges its duties through the completion of an agreed audit plan designed to provide independent assurance that the Council's business risks are being managed to an appropriate level

This report summarises the activities of the Council's Internal Audit service for 2017/18

**RECOMMENDATIONS:**

Members of the Audit & Governance Committee are requested to note the report and to endorse the work carried out by Internal Audit in 2017/18

**1. BACKGROUND:****1.1 INTRODUCTION**

The purpose of this report is to summarise the work carried out by Internal Audit during the year ended 31<sup>st</sup> March 2018. The work of Internal Audit and the resultant overall opinion on the Council's control environment, which is derived from the work performed, provides those charged with governance a source of assurance that is necessary to support the Council's Annual Governance Statement (AGS) which accompanies the Annual Accounts.

The Chief Internal Auditor is required to provide an 'independent' opinion on the adequacy and effectiveness of the systems of internal control operating within the Council. This will provide the signatories to the AGS (the Chief Executive and Leader of the Council) with a degree of assurance on this matter. In reaching the opinion, consideration has been given to the Council's governance arrangements and to the internal control environment in the light of the work of Internal Audit carried out through the year.

Consideration has also been given to the findings of the Council's external auditors (Ernst & Young LLP), who gave an unqualified opinion to the Council's Annual Accounts for 2016/17 which were approved by the Audit & Governance Committee in September 2017.

## 1.2 POINTS TO NOTE

Since 2010, annual additional documents have been reviewed and approved by the Audit & Governance Committee covering:-

- Self-Assessment Checklist Measuring the Effectiveness of Internal Audit
- Self-Assessment Checklist Measuring the Audit Committee's effectiveness against good practice (using a new CIPFA template issued in 2018)

These documents are attached, having been updated for 2017/18, for the Committee's review and approval.

## 2. **PROPOSAL(S):**

It is proposed that the Committee notes the content of the report

## 3. **OPTIONS:**

To endorse the work carried out by Internal Audit in 2017/18, or not

## 4. **CONSULTATION:**

No specific consultation has been undertaken in respect of this report

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. <b>ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	YES	NO
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓

## 6. **IMPLICATIONS:**

**7. REASON FOR THE DECISION:**

The Committee notes the report and endorses the work carried out by Internal Audit in 2017/18

**8. BACKGROUND PAPERS:**

N/A



# Internal Audit

## Annual Report & Opinion 2017/18

## **Introduction**

### **Purpose of the report**

This report summarises the work carried out by Internal Audit during the year ended 31<sup>st</sup> March 2018. The work of Internal Audit and the resultant overall opinion on the Council's control environment, which is derived from the work performed, provides those charged with governance a source of assurance that is necessary to support the Council's Annual Governance Statement (AGS) which accompanies the Annual Accounts.

The Chief Internal Auditor is required to provide an 'independent' opinion on the adequacy and effectiveness of the system of internal controls operating within the Council. This will provide the signatories to the AGS (the Leader of the Council and the Chief Executive) with a degree of assurance on this matter. In reaching the opinion, consideration has been given to the Council's governance arrangements and to the internal control environment in the light of the work of Internal Audit carried out through the year.

Consideration has also been given to the findings of the Council's external auditors, who gave an unqualified opinion to the Council's Annual Accounts for 2016/17, which were approved by the Audit & Governance Committee in September 2017.

In accordance with the requirements of the Code of Practice on Local Authority Accounting, this report outlines the level of assurance that Internal Audit is able to provide, based upon the work undertaken during the year. In reaching an overall opinion, consideration is given to:-

- the effectiveness of the system of internal controls in meeting the Council's objectives
- common or significant weaknesses arising
- major findings where action has not been taken within a reasonable time.

However, it should be noted that this assurance can never be absolute. Internal Audit can only provide a reasonable assurance that there are no major weaknesses in the systems of internal control from the work that they perform and their knowledge of the organisation as a whole.

### **Background**

Internal Audit is an assurance function that provides an independent and objective opinion to the Council on governance, internal control and risk management, by evaluating their effectiveness in achieving the Council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

CIPFA's Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note (LGAN) replaced the Code of Practice from 1<sup>st</sup> April 2013 and compliance with the PSIAS is mandatory. These standards are based upon the mandatory elements of the Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF), which were already included in the processes of the service.

The standard definition of internal auditing (adopted by both the Chartered Institute of Internal Auditors and CIPFA) is that:-

*“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

The provision of Internal Audit is a statutory requirement, which was updated in the Accounts & Audit Regulations 2015 (as referenced in the Local Audit & Accountability Act 2014) which now 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.”*

### **Role of Internal Audit**

In 2017/18, the Council’s internal audit work was provided by the Internal Audit section which now forms part of the Corporate Support Group.

An updated Internal Audit Charter, incorporating the requirements of the PSIAS, was agreed by the Audit Committee and approved by Full Council in 2013. This establishes and defines the role, authority, scope of work, organisational independence, resource requirements and reporting lines of Internal Audit. (Subsequent minor changes to the PSIAS have been incorporated into the Charter and approved by the Committee).

Internal Audit continually seeks to adapt and enhance its approach, in order to take account of the Council’s risk profile and emerging issues, to ensure that audit work remains focused on the areas of highest risk and provides added value to service areas and to the Council as a whole.

Managing the risk of fraud and corruption within the Council is the responsibility of the Chief Executive, supported by the Corporate Management Team and Service area management. Internal Audit will be alert in all their work to risks and exposure that could allow fraud or corruption to occur and has a specific responsibility for ensuring that all potential frauds and irregularities are investigated in an appropriate manner. Arrangements are in place to ensure that Internal Audit is notified of all suspected or detected fraud, corruption or impropriety, which enables the most appropriate course of action to be determined. However, the role of Internal Audit excludes:-

- benefits fraud – which had its own specialist team of investigators, until they transferred to the DWP Single Fraud Investigation Service (SFIS) in December 2015. Any suspicious housing benefit cases identified by the Council would now be referred to the SFIS for review, although consideration of any Council Tax Reduction scheme issues would still be handled by the Council’s Revenues area
- housing tenancy fraud – the Council commenced a pilot exercise in 2016 with the creation of a dedicated housing fraud investigator post. This exercise has proved successful and the post was made permanent in 2017

- electoral fraud – handled by the Returning Officer, in liaison with the Police.

Under the Comptroller and Auditor General's Code of Audit Practice (which applies for 2015-16 audits and beyond) and the requirements of the International Standards on Auditing, external audit is required to place reliance on the work of Internal Audit where possible, to support its conclusions. Regular liaison takes place between the Group Head of Corporate Support, Internal Audit and the external auditors to ensure that resources are best utilised and that duplication of effort is avoided.

It should be noted that the transitional arrangements following the abolition of the Audit Commission have now expired. The Council opted-in to the sector-led approach for the appointment of its future external auditors and contracts for the 5-year period from 2018/19 have now been let by Public Sector Audit Appointments Ltd (PSAA), who are incorporated by the Local Government Association and had previously progressed the transitional appointments process. As a result of this process, the Council's appointed external auditors for the annual accounts work will remain as Ernst & Young LLP.



## **Internal Audit Coverage and Outcomes**

### **Overview of Audit Work Carried Out**

The Audit Plan is agreed annually by the Audit & Governance Committee. The Plan is designed to be flexible and responsive to change, emerging risks and issues identified throughout the year. We have therefore liaised closely with senior management to ensure that this is achieved and the work performed has been amended accordingly to ensure it represents the best use of our resources.

As at 23rd February 2017, the Audit & Governance Committee approved the Annual Internal Audit Plan, based upon the 2.4 FTE available (representing 452 'chargeable' days for the year). As noted in the previous years, it was anticipated that the section would continue with the current resources to contribute to the Council's cost savings initiatives, although the resourcing situation would be kept under review. Resource is therefore directed to 'chargeable' work wherever possible (i.e. working days, excluding annual leave, sickness, training, management and administration).

At the Committee meeting of 28th September 2017 a revised Plan was presented. This was required to reflect a further reduction in the resource available to the section (now 2.0 FTE from September 2017). The new Plan, adjusted to 409 'chargeable' days aimed to ensure that mandatory work was completed, that there was appropriate ongoing involvement in the progress of the Council's Vision 2020 initiative and, where practical, to progress work on the highest risk areas identified in the original Plan.

The Plan(s) presented had been prepared to reflect the management / operational structures in place and agreed corporate priorities. Progress against the original (and subsequently the revised) Plan was affected by the effects of a number of factors, the most significant of which were:-

- the ongoing management and operational restructures across the Council as part of the Council's Vision 2020 work (due to complete in 2018)
- further ongoing liaison / involvement in the due diligence work surrounding the preparation of the business case for the creation / operation of a local property company by the Council, culminating in a special meeting of the Audit & Governance Committee in August 2017
- further high levels of sickness within the section, which reduced the number of work days available
- higher levels of (non-chargeable) administration than planned, due to the requirements for the review and, where appropriate, destruction of data (electronic, paper, emails, etc.) in order to comply with agreed retention requirements in preparation for the introduction of the General Data Protection Regulation (GDPR).

As well as reviews that result in a formal report, the Internal Audit section performed additional work of an ad hoc or ongoing nature. Such work formed part of the approved Plan and included:-

- checking of annual Council Tax precept calculations

- investigation and reporting on the data matches provided by the Cabinet Office, as part of the National Fraud Initiative and liaison with service areas in respect of queries
- regular checking of payroll joiners and leavers
- regular testing on new housing benefit claims, on behalf of the external auditors
- special investigations (as required)
- review and update (where required) of Internal Audit and corporate (where there are security, etc. risks involved) policies and documents including:-
  - Anti-Fraud, Corruption & Bribery Policy
  - Regulation of Investigatory Powers Act (RIPA) 2000 – Corporate Policy and Procedures
  - Whistleblowing Policy
  - Audit & Governance Committee workplan and terms of reference
  - Internal Audit Charter
  - Assessment of the Effectiveness of the Audit Committee
  - Assessment of the Effectiveness of Internal Audit
- chairing meetings of the Council’s Information Security Group (with additional work involving liaison with the Data Protection Officer and ICT staff on the Councils preparations for the introduction of the General Data Protection Regulation in 2018 and the review / update of relevant information security policies)
- attendance at meetings of the Governance & Risk Group and other appropriate officer groups.

On a quarterly basis, Internal Audit provides the Audit & Governance Committee with:-

- a report showing progress in the year against the agreed Audit Plan
- a report summarising the key findings of audits completed in the previous period.

Due to the resource issues noted above, updates to the Committee in 2017/18 were generally via the progress report rather than formal audit reports.

### **Review of Governance Arrangements**

To assist the Council in assessing and developing its governance arrangements, Internal Audit considers on an annual basis the effectiveness of the main systems of internal control and corporate governance, in order to provide assurance to support the preparation of the Council’s Annual Governance Statement. In undertaking this work, Internal Audit utilises a number of approaches:-

- the results of audit work previously undertaken within the Council
- annual review / update of the Council’s local Code of Corporate Governance
- annual assessment of compliance with the local Code, including discussion of governance issues with appropriate Service area management
- consideration of the reliance that can be placed upon work undertaken within the Council by any other internal and external sources of assurance

- via membership of the Governance & Risk Group, ensuring that Service areas prepare / maintain Operational Risk Registers and confirm that appropriate risk management processes are in place to contribute to the overall governance of the Council
- receipt of 'assurance letters' from Corporate Management Team members to confirm that risks are being appropriately managed within their Directorates
- assessment of other relevant sources of information that provide assurance (e.g. fraud reporting, feeding into ISA 240 responses in respect of the identification of, and controls to prevent, fraud required by the external auditors)
- consideration of comments and findings of the Council's external auditors and other relevant review agencies / inspectorates
- an 'assurance mapping' process has also been progressed to consolidate multiple sources of assurance into a single document for assessment purposes. This is an approach promoted by the relevant professional bodies and will continue to be developed in 2018/19, in liaison with members of the Sussex Audit Group.

## **Overall Internal Audit Opinion**

The level of assurance that can be provided is based upon the Internal Audit work carried out during the year and takes into account:-

- the quality and performance of Internal Audit work (both formal, reported reviews and ad hoc liaison with service areas / management)
- follow-up action taken on previous recommendations
- individual audit opinions given in published audit reports
- any significant recommendations not accepted by management and the risks involved
- the extent to which resource constraints may limit Internal Audit's review of the overall control environment
- impact of significant changes to the Council's risk profile and the internal control environment
- any significant issues (errors, control breaches, fraud, etc.) identified by / drawn to the attention of Internal Audit through the period
- the quality and performance of the service and extent of compliance with the Public Sector Internal Audit Standards.

Subject to the resource constraints noted above and the need to prioritise work through the year against mandatory / higher risk tasks, I am satisfied that the assurance work undertaken allows a reasonable and objective opinion on the adequacy and effectiveness of the Council's internal control environment for 2017/18. The internal control environment comprises internal control, risk management and governance arrangements.

No assurance can ever be absolute. However, based upon the work undertaken and the lack of any significant issues identified, my overall opinion is that a satisfactory

level of assurance can be provided that an effective system of internal control has been in place and operating effectively at Arun District Council for the year ended 31<sup>st</sup> March 2018. (The Definitions of Assurance Level are contained in Appendix 1 of this report).

Internal Audit work during the year has identified weaknesses and specific actions for improvement of the control environment, with key issues being reported to meetings of the Audit & Governance Committee. Internal Audit will continue to work closely with management to ensure actions are successfully implemented within reasonable timescales and, if appropriate, follow-up reviews will be performed.

## **Internal Audit Performance**

### **Performance Indicators**

The revised 2017/18 Annual Audit Plan included 409 'chargeable' days (i.e. excluding leave, sickness, administration/management, training), with the actual achieved figure in the year being 375 days.

All Service areas of the Council are required to establish internal performance indicators in order to allow the measurement and review of performance/effectiveness. The Audit Committee approved a number of performance measures for Internal Audit in December 2007, which would contribute to their opinion on the effectiveness of Internal Audit.

The internal indicators are agreed with the Group Head of Corporate Support. The target values for 2017/18 reflect the approved Plan:-

	Target 17/18	Actual 17/18	Historic 16/17	Notes	Target 18/19
Annual Audit Plan - Actual audit days achieved against profiled Audit days	100%	Revised Plan 92% <sup>(1)</sup>	100%	This relates to the % of 'chargeable' days recorded against those in the Plan	100%
Operating costs of internal audit per chargeable day	£283	£292 <sup>(1)</sup>	£318	Target is based on original budget figures (2.7FTE) and chargeable days	£332
Utilisation of resource rate per annual audit plan	88%	84% <sup>(1)</sup>	79%		88%
Results from audit satisfaction feedback surveys	No adverse comments	No adverse comments	100%	No adverse comments received in 2017/18	No adverse comments
Annual Audit Plan - Audit assignment days against overall chargeable days	76%	69% <sup>(2)</sup>	84%	This relates to the % of formal planned audits, as opposed to other chargeable time (e.g. liaison, investigations, etc.)	77%
External audit reliance on the work of Internal	Yes	TBC	Yes	No relevant adverse comments are raised in external auditor's Annual	Yes

Audit is satisfactory				Results Report / Annual Audit Letter	
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- (1) – under-performed due to there being less chargeable days available than planned  
(2) – some additional governance and counter-fraud work was undertaken

It should be noted that, under the Council's revised performance management processes, the above indicators are no longer included as part of the Service Delivery Plan, but continue to be maintained operationally and reported to the Audit & Governance Committee. These (and potentially, other operational indicators) will also be maintained to allow benchmarking against other contributing local Councils through the Sussex Audit Group.

The Audit Plans for 2017/18 and 2018/19 presented to the Committee were prepared on a slightly different basis to those in previous years. This is as a result of the shared services 'preparation' work in 2016, whereby a more common planning methodology and classification of chargeable / non-chargeable time was agreed for possible future use by the 3 Councils. Although the shared service has not been progressed, this (and a Budget reduction to reflect the current resource level) has been used as the basis for the new Plan including the revised performance measure targets.

As audits are becoming increasingly more complex, covering Council-wide subjects with input from multiple diverse service areas, there is less use of individual audit satisfaction feedback surveys. In 2015, a revised survey covering the service(s) provided by Internal Audit was sent to managers across the Council with the results received demonstrating a high level of satisfaction with the section. Although it was anticipated that the survey would be repeated annually, it was not conducted in 2016-17 owing to the focus of the work on the Vision 2020 programme. It is anticipated that the survey will be repeated in 2018/19 once the Council's revised management and operating structure is finalised.

### Review of Internal Audit

The Accounts & Audit (England) Regulations 2011 required that "*A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.*" This was primarily against the CIPFA Code of Practice for Internal Audit in Local Government / the PSIAS from 1<sup>st</sup> April 2013). However, as noted above, the wording has changed in the 2015 Regulations which now require an effective internal audit "*taking into account public sector internal auditing standards or guidance*".

The PSIAS (standard 1311) requires "*periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices*". This has been formalised into a Self-Assessment Checklist Measuring the Effectiveness of Internal Audit. The self-assessment was presented to the Audit & Governance Committee for their input, review and approval on 29<sup>th</sup> June 2017, and was subsequently signed by both the Group Head of Corporate Support and the Chairman of the Audit & Governance Committee.

In addition, in accordance with CIPFA best practice, a Self-Assessment Checklist Measuring the Audit Committee's Effectiveness was also presented to, reviewed and approved by the Audit & Governance Committee.

Annual review of these two documents in 2018 has identified minor amendments which will again be presented to the Audit & Governance Committee for review / approval at its meeting of 26<sup>th</sup> July 2018.

## Standards / Compliance

The service operates to a published Internal Audit Charter, which is approved by the Audit & Governance Committee, and reflects standards of best professional practice applicable to internal audit. Until 2012/13, these were primarily the Institute of Internal Auditors' International Professional Practices Framework (IPPF) and the CIPFA Code of Practice for Internal Audit in Local Government. (In 2018/19, there will be a need to review and update the Charter to bring it more into line with current recommendations as to format and content).

From 1<sup>st</sup> April 2013, the CIPFA Code was replaced by the Public Sector Internal Audit Standards (PSIAS) which are based upon the mandatory elements of the IPPF. The requirements of the PSIAS were considered and the degree of compliance assessed, in preparation for their introduction, and a number of minor changes to working practices and the Internal Audit Charter have been made to reflect them.

The PSIAS requires that *"the results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report."* A Quality Assurance & Improvement Programme (QAIP) review was conducted in 2012 and has been updated annually. While this indicated no significant issues with the operation of the service, the following items of potential 'non-compliance' were identified and an explanatory note or details of actions to be taken provided:-

Standard	Requirement	Explanation / Actions
<b>1100</b>	<b>Independence and Objectivity</b>	
<b>1110</b>	<b>Organisational Independence</b> The chief audit executive should report functionally to the board For most purposes in the PSIAS, the term 'board' will relate to the Audit & Governance Committee (A&GC)	Senior Council management will be responsible for the following, rather than the board:- <ul style="list-style-type: none"> <li>• Approving the internal audit budget and resource plan</li> <li>• Approving decisions regarding the appointment and removal of the chief audit executive</li> <li>• Approving the remuneration of the chief audit executive.</li> </ul> <i>While the A&amp;GC is not directly responsible for the above, any issues would be raised with them for consideration.</i>
<b>1110</b>	<b>Organisational Independence</b> While the requirements would not generally involve the board approving the CAE's remuneration specifically, it should be ensured that the remuneration or performance assessment is not inappropriately influenced by those subject to audit	The guidance recommends that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee. <i>Until 2017, the review and countersigning of the CAE performance was undertaken by the Resources Director &amp; Deputy Chief Executive. As part of the Council's</i>

		<p><i>management restructure, this post no longer exists and input will now be provided by the Chief Executive (who now has responsibility for the Corporate Support area).</i></p> <p><i>Feedback on internal audit performance is also obtained from the A&amp;GC when reviewing both the Internal Audit Annual Report &amp; Opinion and the Self-Assessment Checklist Measuring the Effectiveness of Internal Audit.</i></p>
1310	<b>Requirements of the Quality Assurance and Improvement Programme</b>	
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 organization.</p> <p>The scope of the assessment and qualifications / independence of the external assessor must be agreed with the board</p>	<p>This requirement was drawn to the attention of the A&amp;GC at its September 2012 meeting, when the changes to the Internal Audit Charter for the draft of the PSIAS were presented.</p> <p><i>CIPFA has advised that local government bodies should have this completed by March 2018. The Sussex Audit Group has agreed a cost-effective, collaborative arrangement for this requirement to be met. A number of external quality assessment (EQA) reviews have now been conducted across Sussex, but the Arun review has been delayed from 2017 and will be pursued through the Sussex Audit Group.</i></p>
1320	<b>Reporting on the Quality Assurance and Improvement Programme</b>	
1321	<p><b>Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”</b></p> <p>The CAE may state that internal audit activity “conforms” only if the results of the QAIP support this statement</p>	<p>Until an external assessment has been conducted, as required by the QAIP, and any issues raised have been addressed a full conformance statement is not appropriate.</p> <p><i>The current statement made in the Internal Audit Charter is that “The service operates with reference to standards of best professional practice applicable to internal audit.”</i></p>

## Service Risks

The following current risks to the Internal Audit service have been identified:-

### Resourcing

- As reported to the Committee last year, as at September 2016 the revised Audit Plan was noted, based upon the reduction to 2.4 FTE. In view of the requirements for costs savings, it was anticipated that the section would continue with this level of resource, although the situation would be kept under review. However, with the departure of a member of the section in 2017, the Audit Plan for 2018/19 presented to the Committee in February 2018 is based upon the current available resource of 2.0 FTE, resulting in a plan including 381 chargeable days.

*(NB – it should be noted that this is now a lower of resource than had been proposed for a possible shared service in 2016, which had been based upon 2.1 FTE and 400 chargeable days).*

- The Plan is based upon what is achievable with current resource level, but there is a risk that resource could be further impacted in the future. This could mean that key financial systems do not receive adequate audit coverage and/or the degree of assurance obtained from the annual audit opinion would be further reduced due to less work being performed to consider the internal control environment. If this situation were to arise, consideration could be given to the use of additional, short-term contract resource to assist in the progress against the planned assignments
- While this continues to be manageable on a short-term basis at the present time, there is a strain on resource particularly where urgent priority tasks arise through the year and this has impacted upon the number of formal, reported audits achieved, with shorter pieces of liaison / consultancy work undertaken and reported to the Audit & Governance Committee via the periodic progress report.
- In the longer-term, consideration will be needed as to the future resourcing and operation of the section as past cost savings exercises means that there is now limited funding available. Once appropriate options have been identified, they will be discussed with the Chairman and presented to the Committee, if appropriate.

#### Changes To The Schedule Of Committee Meetings

- Until 2017/18, the Audit & Governance Committee has met on a quarterly basis, with meetings in June and September to coincide with the deadlines for completion of the draft and final Annual Accounts.
- From 2018, changed accountancy requirements means that the deadlines for the completion of the draft and final Accounts have been brought forward to 31<sup>st</sup> May and 31<sup>st</sup> July annually.
- As Committee memberships are not known until the Annual Council meeting (generally in mid-May) and in election years (e.g. 2019) there is a purdah period, it was agreed that it would be impractical to hold a meeting at the end of May, so the agenda items for the meetings formerly held in June and September will now be combined into a meeting at the end of July. This will then consider the audited Annual Accounts, associated documents and annual reports for the Committee. The Committee will now meet 3 times a year, with a meeting required in February to allow time for the recommendations of the Committee on the Treasury Management Strategy Statement & Annual Investment Strategy to be presented to Full Council for approval before 31<sup>st</sup> March. The third meeting will then be arranged at a convenient time between the other meetings.
- The terms of reference for the Committee allow for additional 'special' meetings to be held, should the need arise. While there appears no reason why the revised arrangement should not be adequate, officers will monitor the situation to ensure that the workload of the Committee does not become unmanageable within this schedule of meetings.





## **Conclusion and Acknowledgment**

The Internal Audit overall opinion has been provided on the basis of work undertaken during 2017/18 and any carry-over of work that has been carried out to date in the current year. Any significant issues that arise from further Internal Audit work carried out up until the Annual Governance Statement is approved on 26<sup>th</sup> July 2018 will be reported to the Audit & Governance Committee at that time.

Internal Audit is a support service that assists the Chief Executive and Group Head of Corporate Support in satisfying the Council's statutory obligations under Section 151 of the Local Government Act 1972. In addition, it aids management by helping to ensure that adequate systems of internal control are in place and are complied with. Fulfilling this role depends very much upon the co-operation of Members and Officers and we would like to thank all colleagues for the continued assistance given to Internal Audit staff throughout the year.

**Appendix 1****Definitions of Assurance Level**

Level of Assurance	Description
Substantial	There is a sound system of control in place which minimises risk to the Council Control objectives are consistently achieved, with few errors or weaknesses
Satisfactory	There is an adequate system of control in place, but there are some weaknesses which may place the Council at risk Control objectives are generally achieved, but there is a lack of compliance with some controls
Limited	There are weaknesses in the system of control which places the Council at risk Key controls may be absent and/or there is often a lack of compliance with controls
No	The system of control is generally weak leaving the system open to significant error or abuse There is a significant level of non-compliance with basic control processes

These definitions have been altered slightly in 2018 to bring them more into line with the definitions in use by other Sussex Audit Group members and will be included in the next update to the Internal Audit Charter

## **Appendix 2**

### **Implementation of Internal Audit Recommendations**

As part of the audit process, the results of work undertaken are discussed with management and recommendations for improvement and actions to be taken to address the issues raised agreed, prior to being included in a formal report. It is the responsibility of Service area management to address the issues identified within the agreed timescales.

There is still some scope for improving the speed with which remedial action is taken by management where weaknesses in controls have been identified. Internal Audit will work with Service Heads to strengthen progress reporting and the processes that enable the status of all recommendations to be tracked and responsible managers held to account for implementation of agreed actions within allocated timescales.

### **Major Recommendations Not Implemented Within A Reasonable Timescale**

When an audit finding is raised and agreed by management, a target resolution date is also agreed. In general, the timescales should be realistic and Internal Audit will liaise with management/follow-up the issues to ensure that the agreed actions are completed.

However, in some cases other factors will impact the successful implementation of the agreed actions and these may be outside of the direct control of the Service area. Internal Audit may agree a revision to the target date and continue to monitor progress.

In May 2016, a report of outstanding audit findings was presented to the Council's Corporate Management Team. The discussions noted that there are a number of known, long-term items (e.g. the Local Plan) that cannot currently be resolved and also that there will be an increasing number that either will be included for consideration as part of the Vision 2020 work, or would not be progressed until the future direction for the delivery of relevant services has been agreed (e.g. IT-related issues).

As at April 2018, the Council's management restructure has been completed but some operational changes are still being progressed. This has therefore significantly changed the responsibilities of many senior staff. A further report of outstanding audit findings will be presented to CMT in 2018, once the new structures have been finalised and changed responsibilities confirmed.

The following significant issues from past Internal Audits are noted as outstanding:-

Audit	Date Report Issued	Issue(s) Raised	Original Target Date	Current Position
Information Technology – Physical Security & Disaster Recovery	Dec 2009 / Follow-up report issued Apr 2014	Multiple items in respect of IT disaster recovery arrangements	Mar 2010	<p>The Council's IT recovery arrangements have been subject to considerable change in recent years, including the implementation of the Storage Area Network (SAN) at the Civic Centre and a back-up SAN at the WSCC site in Chichester, to which regular automated off-site back-ups are being transmitted. However, the completion of appropriate documentation and implementation of a testing plan remains outstanding.</p> <p>The risk consultancy area of the Council's insurers (Zurich Risk Engineering) has assisted in work on the Council's business continuity arrangements. This has resulted in a draft Corporate BCP and workshops were held in 2016/17 to assist service areas in completing an updated Business Impact Assessment (BIA) for each area, which will identify recovery requirements and service priorities. These must be agreed and aligned with the ability to provide appropriate IT services in the event of a disaster.</p> <p>However, this work stalled during the restructure of the organisation and will now require review and update to reflect the new structure and organisational needs. A review of the Council's accommodation requirements is currently under way and the outcome of this may significantly impact both recovery options available and business requirements</p>
Planning – Section 106	Jun 2010	Multiple items in respect of the Local Plan and supporting policies / documentation	Dec 2010	<p>As reported previously, the Council's draft Local Plan 2011-2031 examination was suspended for 12-18 months on the recommendation of the Planning Inspectorate following 'examination in public' in June 2015.</p> <p>Consideration has been given to the Inspector's conclusions contained in his report and the draft Local Plan and evidence base updated to include increased</p>

				<p>housing numbers.</p> <p>The 'examination in public' resumed with hearings held in September 2017.</p> <p>The Council has considered the 'Interim Views following the Hearings' provided by the Inspector in October 2017. The Council has responded where appropriate and identified the Main Modifications required to the draft Local Plan / evidence base.</p> <p>These modifications have been consulted on and a revised submission made to the Planning Inspector for final approval (which it is hoped will be received in mid-2018). Once agreed, the final version will be presented to Full Council for adoption</p>
Payment Card Industry – Data Security Standard (PCI-DSS) Compliance	Jan 2012	Actions required to achieve compliance / obtain certification	July 2012	<p>A PCI-compliant call recording solution was completed in the Contact Centre in 2014 and has since been replaced as part of the Contact Centre telephony changes in 2018.</p> <p>An external consultant performed a review of the actions required for compliance – these would require additional IT work (firewalls, etc.) and/or working practice changes (none of which were felt to be acceptable by the then Director of Customer Services due to costs and service impact).</p> <p>At the present time, the risk to the Council has therefore been accepted by senior management</p>
Partnerships	Oct 2015	Multiple items in respect of the identification / governance of partnership arrangements	During 2016	<p>The audit of partnerships was reported to the Corporate Management Team in 2015. A plan of action was agreed at this time, but progress has been delayed by the need to give consideration to possible alternative service delivery arrangements as part of the wider Vision 2020 work and also by the responsibility and operational changes resulting from the Council's management restructure.</p> <p>The priority of the new Group Head of Policy was the conduct of the various elections in 2017 and the recommended review into the identification and governance of partnerships will now be progressed in 2018</p>

Data Retention	Various	Multiple audits have raised issues in respect of data retention (and destruction) requirements / compliance with the Data Protection Act	Various	As part of the preparation for the 2018 General Data Protection Regulation (GDPR), a data audit exercise was conducted across all service areas. A corporate Records Retention and Disposal Policy has now been approved by Full Council (9/17) and work is progressing to apply this to stored data e.g. held in EDRMS
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## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

### CIPFA Code of Practice – Standards

*NB – the CIPFA Public Sector Internal Audit Standards (PSIAS) replaced the CIPFA Code from 2013 (this 'simple' checklist has again been used, rather than the lengthy PSIAS version, used for External Quality Assessment)*

2006 Code Standard	Evidence of Achievement	Areas For Development
<p>1. Scope of Internal Audit</p> <ul style="list-style-type: none"> <li>- Terms of reference</li> <li>- Scope</li> <li>- Responsibilities in respect of other organisations</li> <li>- Fraud and corruption</li> </ul>	<p>Terms of reference reflecting the Public Sector Internal Audit Standards (PSIAS) are incorporated in the Internal Audit Charter, with any changes approved by the Audit &amp; Governance Committee. (These are also reflected in the Financial Regulations contained within the Constitution).</p> <p>Scope of audit work takes into account risk management processes and wider internal control. The Annual Audit Plan 2018/19 and resources were presented to the Audit &amp; Governance Committee and agreed on 22 February 2018.</p> <p>The updated Internal Audit Charter refers to the role including consideration of functions and services delivered by partners.</p> <p>The Annual Audit Plan may include work on Partnerships and areas where the Service has a 3<sup>rd</sup> party contractual arrangement in place (e.g. Car Parks, Cleansing, etc.), although Internal Audit access to the other organisation(s) will be limited by rights of access contained in contracts or partnership agreements.</p> <p>The Internal Audit Charter defines audit responsibilities in relation to suspected irregularity or fraud. (Until December 2015 Benefits had responsibility for investigation of benefits fraud, in liaison with the DWP where appropriate. This responsibility has now passed to the DWP Single Fraud Investigation Service. Housing now also has a permanent Housing Fraud Investigator, following a successful pilot exercise).</p>	<p>The longer term resourcing of the section is currently under consideration</p> <p>Audit rights of access are required in appropriate contracts / partnerships entered into</p>



## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	<p>A revised Anti-Fraud, Corruption &amp; Bribery Policy was adopted by the Council in October 2013.</p> <p>An annual Counter-Fraud Report is provided to the Audit &amp; Governance Committee.</p>	<p>This Policy will need review and update once changes to the Constitution, Codes of Conduct and the restructure have been completed</p>
<p>2. Independence</p> <ul style="list-style-type: none"> <li>- Organisational independence</li> <li>- Status of Head of Internal Audit</li> <li>- Independence of individual internal auditors</li> <li>- Independence of internal audit contractors</li> <li>- Declaration of interest</li> </ul>	<p>Internal Audit has no management responsibility for non-audit operational areas, including the development, implementation or operation of systems.</p> <p>The Chief Internal Auditor has direct access to those charged with governance and can report to all senior management, including the Chief Executive, Chief Finance Officer, Cabinet and Overview Select Committee (and working groups), as well as to the Audit &amp; Governance Committee.</p> <p>The Council has considered the CIPFA best practice document The Role of the Head of Internal Audit, which was issued in December 2010.</p> <p>Auditors are independent of the activity they audit, and have no operational responsibilities, allowing them to perform their duties in a manner which facilitates impartial judgement and recommendations.</p> <p>Rotation of audit work within the team is practised, where this is practical.</p> <p>No contractors are currently in use. Any use of external resource would include consideration of independence in the contracted terms / terms of reference.</p> <p>All members of staff are required to make a periodic Declaration of Interests</p>	

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	under the Code of Conduct – any conflict of interest identified would be considered in the allocation of resources against the annual plan.	
<p>3. Ethics</p> <ul style="list-style-type: none"> <li>- Integrity</li> <li>- Objectivity</li> <li>- Competence</li> <li>- Confidentiality</li> </ul>	<p>All staff are required to comply with the Employee Code of Conduct and sign a confidentiality agreement as part of their conditions of employment.</p> <p>Where current Internal Audit staff are members of the Chartered Institute of Internal Auditors, they are subject to the professional code of ethics of the organisation. From 1<sup>st</sup> April 2013, all Internal Audit are subject to the Code of Ethics contained in the PSIAS (based upon that of the CIIA).</p> <p>Staff are subject to annual appraisals as part of the Council’s Performance Development Review process.</p>	
<p>4. Audit Committee</p> <ul style="list-style-type: none"> <li>- Purpose of the Audit Committee</li>   <li>- Internal Audit’s relationship with the Audit Committee</li> </ul>	<p>The Terms of Reference (ToR) for the Audit &amp; Governance Committee are contained in the Council’s Constitution. As part of the ongoing review of the Council, Constitution, a revised ToR for the Committee was approved by Full Council on 10 January 2018.</p> <p>The Chief Internal Auditor (and other audit staff) attends the meetings of the Audit &amp; Governance Committee, reports on the outcome of Internal Audit work, identifies necessary changes to the audit plan and presents an annual audit report and opinion / assurance on the internal control and risk management framework of the Council (approved by the Audit &amp; Governance Committee on 26 July 2018). (The Chairman and Vice-Chairman may also hold individual discussions with the Chief Internal Auditor).</p>	

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

<p>5. Relationships</p> <ul style="list-style-type: none"> <li>- With management</li>   <li>- With other internal auditors</li>   <li>- With external auditors</li>   <li>- With other regulators and inspectors</li>   <li>- With elected Members</li> </ul>	<p>Managers are consulted on the risks, business objectives and scope of each review to be undertaken. (The Internal Audit Brief format was amended in 2009 to better link the area under review to achievement of the Arun Priorities / corporate objectives).</p> <p>Management responsibility for internal control, risk management and fraud and corruption matters is defined in the Financial Regulations (part of the Constitution) and the Council's Risk Management Strategy (updated in 2017).</p> <p>Internal Audit staff network with a number of other internal review agencies (e.g. the Sussex Audit Group), sharing information on areas of common interest.</p> <p>Liaison takes place with the external auditors' manager and team leader, when they are on site. There is some consultation on the respective annual plans, to avoid duplication of effort and ways to improve this will be examined.</p> <p>Internal Audit also undertakes specific 'key control' testing on financial systems at the request of external audit and provides them with test results for review.</p> <p>Internal Audit liaise with external regulators and inspectors, as appropriate (e.g. the Information Commissioner's Office, the Investigatory Powers Commissioner's Office, etc.).</p> <p>The responsibilities of Internal Audit staff and Members, particularly those of the Audit &amp; Governance Committee, are understood. (A Protocol on Member / Officer Relations forms part of the Constitution).</p>	<p>Council Priorities for 2018-2022 and a revised Corporate Plan have been agreed by the Council and will be used in future audit planning</p>         <p>Periodic liaison meetings are also held with Ernst &amp; Young LLP by the Chief Executive / Chief Finance Officer</p>
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## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	<p>Training of Members is carried out, as appropriate. An induction session was held for members of the Committee in June 2015.</p>	<p>An induction session will also be planned for members after the 2019 District elections</p>
<p>6. Staffing, training and development</p>	<p>The skills and competencies required for each post have been determined and Job Descriptions for Internal Audit staff were updated in 2012, when a ‘career grade’ scheme was introduced to allow progression based upon experience / qualifications.</p> <p>Consideration of the skills and competencies of staff forms part of the annual Performance Development Review process. This will be used to identify skills gaps and individual training and development plans are agreed.</p> <p>Professionally qualified staff (IIA and ISACA) are required to complete appropriate CPD on an annual basis.</p>	<p>A revised PDR process was implemented by the Council in 2016</p> <p>The PSIAS requires all audit staff to log completed CPD, not just those for whom it is a requirement of their professional body</p>
<p>7. Audit Strategy and planning</p>	<p>The Audit Strategy complies with the PSIAS and has been incorporated into the Internal Audit Charter.</p> <p>The risk-based Audit Plan is prepared annually in accordance with the strategy, including input / review by the Council’s Corporate Management Team, and approved by the Audit &amp; Governance Committee.</p> <p>The Council’s Strategic Risk Register is considered in determining the content</p>	<p>The PSIAS refers to ‘the board’ - which will normally be the A&amp;GC, and ‘senior management’ – which will normally be CMT (and other Group Heads)</p> <p>Operational Risk Registers will</p>

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	<p>of the plan and the risks to be considered in individual assignments. This was reviewed and updated by the Council's Governance &amp; Risk Group and presented to the Audit &amp; Governance Committee in December 2017. Operational Risk Registers have now been set up by each Service area (and reviewed by the Council's Governance &amp; Risk Group). These will also be referred to when planning an audit assignment. (Risk scoring by Internal Audit was reviewed when planning for 2012/13-onwards and now performed using Excel).</p> <p>Available resources are considered as part of the annual planning process. Any expected or unexpected shortfall, or requirements for external specialist resource, will be reported to the Audit &amp; Governance Committee.</p>	<p>need to be reviewed as a corporate exercise in 2018, in order for them to be set up in the risk module of the Council's new performance management system</p>
<p>8. Undertaking audit work</p> <ul style="list-style-type: none"> <li>- Planning</li> <li>- Approach</li> <li>- Recording and assignments</li> </ul>	<p>Where appropriate, an Internal Audit Brief is prepared identifying the objectives, scope and approach of each full audit review, for agreement with management prior to commencing work.</p> <p>A risk-based approach is used and an audit opinion is given.</p> <p>Issues are discussed with management as they arise, and a formal feedback meeting held with management at the end of the audit testing, prior to completing the report.</p> <p>Adequate working papers supporting conclusions drawn and recommendations made are maintained and are retained in accordance with defined policy. Where practical, papers are stored electronically. Working papers / reports are subject to supervisory review.</p> <p>Reports are issued to appropriate managers, in accordance with the Internal</p>	<p>Some assignments will no longer have a formal Brief – this will be work e.g. where there is a requirement for considerable research, which then overlaps testing</p> <p>Working practices will be subject to ongoing consideration to ensure that best use is made of resources</p>

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	Audit Brief / Audit Charter.	
9. Due professional care  - Responsibilities of the individual auditor        - Responsibilities of the Head of Internal Audit	<p>All internal auditors are aware of their individual responsibilities for due professional care.</p> <p>Where current Internal Audit staff are full or student members of the Chartered Institute of Internal Auditors, they will be subject to the professional standards of the organisations. From 1<sup>st</sup> April 2013, all Internal Audit staff will be subject to the standards contained in the PSIAS (based upon that of the CIIA).</p> <p>The Chief Internal Auditor reviews all audit files and reports. Annual appraisal training needs are identified and delivered. A whistle-blowing procedure is maintained. Work is assigned so as to avoid potential conflicts of interest.</p> <p>The Council has considered its compliance against the CIPFA best practice document The Role of the Head of Internal Audit, which was issued in December 2010.</p>	<p>From 1<sup>st</sup> April 2013, the PSIAS requires that regard is also had to the Committee on Standards in Public Life's 'Seven Principles of Public Life'</p>
10. Reporting  - Reporting on audit work	<p>A standard report process and format is used:-</p> <ul style="list-style-type: none"> <li>- audit reports give an opinion on risks and controls, using the approved methodology</li> <li>- scope of the audit is set out as an appendix to the report</li> <li>- recommendations are prioritised according to risk</li> <li>- reports are issued to appropriate managers and, where appropriate, to other</li> </ul>	<p>Ongoing consideration will be given to the report format used, to ensure that it best meets customer requirements</p>

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

<p>- Annual reporting</p>	<p>Directors</p> <ul style="list-style-type: none"> <li>- assurances are sought from managers on the delivery of agreed action plans and appropriate follow-up actions are taken to assess the effectiveness of the implementation of recommendations. If recommendations are not implemented on a timely basis, escalation may be via the Corporate Management Team or Audit &amp; Governance Committee</li> <li>- where necessary, the opinion is revised in the light of the delivery of agreed actions.</li> </ul> <p>An Annual Governance Statement is presented to the Audit &amp; Governance Committee for approval and is published to accompany the annual accounts (approved 26 July 2018).</p> <p>An Annual Internal Audit Report &amp; Opinion is also presented to the Audit &amp; Governance Committee (approved 26 July 2018). The report includes an opinion on the control environment and any qualifications to that opinion. The work on which the opinion is based is set out in the report. The report highlights significant issues.</p> <p>Quarterly update reports, summarising progress against the annual plan and audits performed, are submitted to the Audit &amp; Governance Committee, advising how the opinion is developing.</p>	<p>From 1<sup>st</sup> April 2013, this report must also consider compliance with the PSIAS and report any significant areas of non-compliance</p>
<p>11. Performance, quality and effectiveness</p> <ul style="list-style-type: none"> <li>- Principles of performance, quality and effectiveness</li> <li>- Quality assurance of audit work</li> <li>- Performance and effectiveness of the Internal Audit service</li> </ul>	<p>Policies and procedures are defined in the Internal Audit Manual (based upon CIPFA best practice).</p> <p>Audits are assigned according to the skills mix required and so that there is adequate supervision.</p> <p>Performance measures are defined and reported to the Audit &amp; Governance</p>	

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	<p>Committee in the Annual Internal Audit Report.</p> <p>All audit files and reports are reviewed by the Chief Internal Auditor. Where appropriate, client satisfaction surveys are issued with the final report and any suggestions for improvement considered. A general satisfaction survey was issued to all managers in May 2015 and this exercise will be repeated. An annual assessment of the effectiveness of Internal Audit is undertaken by the Group Head of Corporate Support / Audit &amp; Governance Committee.</p> <p>The PSIAS also requires that an external assessment of Internal Audit be conducted at least once every 5 years by a qualified, independent assessor/assessment team from outside the organisation. The scope of such an assessment will be agreed with the Audit &amp; Governance Committee, the results reported to them and the implementation of any agreed improvements monitored/reported.</p>	<p>In 2016-18, the Council has implemented a revised management structure which has affected both service responsibilities and audit planning</p> <p>Members of the Sussex Audit Group have set up a framework to allow this to be achieved on a mutual, cost-effective basis. The review of Arun's Internal Audit section is now overdue, having been delayed from 2017 and will be pursued via SAG</p>
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## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

### CIPFA Code of Practice – Characteristics of Effectiveness

Characteristic of 'effectiveness'	Evidence of Achievement	Areas For Development
Understand its position in respect of the organisation's other sources of assurance and plan its work accordingly	<p>Internal Audit identifies other sources of assurance (e.g. the Annual Governance Statement, risk management and performance management processes) and takes these into account when preparing the Annual Audit Plan.</p> <p>The Council reviews and updates its Code of Corporate Governance annually (including the requirements of CIPFA's The Role of the Chief Financial Officer, as advised in their Application Note of March 2010) – approved by the Audit &amp; Governance Committee on 26 July 2018.</p>	CIPFA issued a revised corporate governance framework which took effect from 1 April 2017
Understand the whole organisation, its needs and objectives	<p>The audit plan demonstrates how audit work will provide assurance in relation to the authority's objectives.</p> <p>Individual audit assignments identify risks to the achievement of these objectives and link the area under review to the Arun Priorities in the Internal Audit Brief issued.</p>	Council Priorities for 2018-2022, Vision 2020 objectives and a revised Corporate Plan have been agreed by the Council and will be used in future audit planning
Be seen as a catalyst for change at the heart of the organisation	<p>Internal Audit inputs to corporate change through membership and / or contribution to:-</p> <ul style="list-style-type: none"> <li>- various officer groups (e.g. Information Security Group, Governance &amp; Risk Group, Asset Management Group)</li> <li>- Member groups (e.g. Constitution Working Party).</li> </ul> <p>Supportive role of the audit team is also demonstrated through corporate developments, such as corporate governance review, risk management and ethics.</p> <p>Individual assignments may also be a catalyst for change. Internal Audit also</p>	

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	contributes, in an advisory capacity, to the delivery of key business projects.	
Add value and assist the organisation in achieving its objectives	Demonstrated through individual audit assignments and also corporate work. A specific question in this regard is included in the client satisfaction surveys issued. A wider management satisfaction survey was piloted in 2015 and will now be performed periodically.	As part of the annual planning process, CMT / SMT members are consulted on the areas they feel are high risk and / or Internal Audit work will add value
Be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations	Internal Audit provides help and advice on request and supports specific projects identified in the plan and on an ad hoc basis.	
Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact	<p>When identifying risks and in formulating the plan, changes in the national agenda are considered. Emerging and future risks should be documented in the Strategic Risk Register and Operational Risk Registers by service areas.</p> <p>The Internal Audit section maintains awareness of new developments in the services it audits, risk management and corporate governance and disseminates this knowledge to other parts of the Council.</p>	
Be innovative and challenging – shaping the values and standards of the organisation, providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy	Internal Audit reporting arrangements focus on risks and encourages managers to develop their own responses to the risks and to take greater ownership of the control environment.	



## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

<p>Ensure the right resources are available – the skills mix, capacity, specialism and qualifications / experience requirements all change constantly</p>	<p>Staff are encouraged to undertake professional qualifications and relevant training plans linked to staff appraisals are in place.</p> <p>The Chief Internal Auditor has also been part of the Management Development Programme delivered by the Council.</p> <p>Specialist input on IT audit is available in-house. Any identified requirement for external specialist resource for a specific assignment would be referred to the Audit &amp; Governance Committee for approval.</p>	<p>There is also the potential for ‘collaborative working’ (particularly where specialist skills are required) with other members of the Sussex Audit Group</p>
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Page 259 of 290

Alan Peach  
Group Head of Corporate Support \_\_\_\_\_

Cllr Terence Chapman  
Chairman of Audit & Governance Committee \_\_\_\_\_

Presented to the Audit & Governance Committee at its meeting of 26 July 2018, in association with the Internal Audit Annual Report & Opinion

## Audit Committees - Self-assessment of good practice

Good practice questions		Yes	Partly	No	Comments
<b>Audit committee purpose and governance</b>					
1	Does the authority have a dedicated audit committee?	✓			Audit & Governance Committee
2	Does the audit committee report directly to full council?	✓			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓			
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓			Constitution review of all committees in 2017 confirmed roles and removed overlap. Revised ToRs for committees (including the A&GC) agreed by Full Council  Except where specifically delegated by Full Council (e.g. approval of the Annual Accounts), the committee acts in an advisory role and submits recommendations to the executive (i.e. Full Council)
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓			Committee meeting minutes are presented to Full Council
<b>Functions of the committee</b>					
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				As part of the recent Constitution review, the terms of reference all committees were reviewed and made more succinct
	<ul style="list-style-type: none"> <li>▪ good governance</li> </ul>	✓			The assurance framework is an information source for the Annual Governance Statement (AGS) which is reviewed and approved by the committee
	<ul style="list-style-type: none"> <li>▪ assurance framework, including partnerships and collaboration arrangements</li> </ul>		✓		Partnership working has been considered by the committee, based upon previous CIPFA recommendation and a resulting internal audit review. Comment on this is included in the AGS
	<ul style="list-style-type: none"> <li>▪ internal audit</li> </ul>	✓			Value for money / best value is included as part of the Council's Financial Regulations and is also considered as part of external audit's work reported to the committee
	<ul style="list-style-type: none"> <li>▪ external audit</li> </ul>	✓			The Council still operates a separate Standards Committee which leads on promoting high standards of conduct. Internal Audit will periodically review ethical governance within the Council and report findings to the committee
	<ul style="list-style-type: none"> <li>▪ financial reporting</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ risk management</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ value for money or best value</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ counter fraud and corruption</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ supporting the ethical framework</li> </ul>		✓		
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓			An annual consideration of the effectiveness of the audit committee is conducted annually (using a CIPFA template). It is reported to the committee for consideration and signed by the Chair of the Committee and Group Head of Corporate Support (CFO / s151 Officer)
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	✓			Additional governance items, policy reviews, etc. may be included where it is felt the A&GC is the most appropriate body  Treasury Management oversight is already delegated to the A&GC  Ethics / Standards – as the Council has a dedicated Standards Committee, this is generally assurance only (e.g. through the

				AGS)
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	n/a		Should the committee feel the need for additional coverage, it may commission specific work from Internal Audit or set up its own working party
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓		The role of the Governance Committee was incorporated in 2011. This included oversight of the work of the Independent Members' Remuneration Panel  In 2017, review and scrutiny of any Council-owned companies and Cabinet's role in overseeing this activity was also added  This does not affect the advisory role of the Committee, as it is required to refer recommendations for consideration by Full Council for these non-'core' activities
<b>Membership and support</b>				
12	Has an effective audit committee structure and composition of the committee been selected? This should include:			In 2018, meeting times have been altered to widen the pool of Councillors who could be appointed to the committee
	▪ separation from the executive	✓		Cabinet members may not serve
	▪ an appropriate mix of knowledge and skills among the membership		✓	Appointment to the committee is by Group Leaders and approved by Annual Council and will generally provide an eclectic mix
	▪ a size of committee that is not unwieldy	✓		Set in the Constitution as 10 and following political balance
	▪ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)		✓	It is felt that the time and cost of recruiting and training an independent member would significantly outweigh any potential benefit at this time, but the situation will be kept under consideration
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council?	n/a		
14	Does the chair of the committee have appropriate knowledge and skills?	✓		Currently an experienced Councillor , committee chairman and former Cabinet Member, with relevant external, commercial experience
15	Are arrangements in place to support the committee with briefings and training?		✓	Periodic briefings are provided to the Committee e.g. on treasury management, risk management, etc.  More general committee training may also be available corporately  A detailed induction program for members will be provided for Members after the District Elections in May 2019
16	Has membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		✓	Induction training (including that specific to the A&GC) was offered to all Members of the Council after the 2015 District Elections and a training program will be developed / agreed for 2019  Briefings / updates are provided by officers, as appropriate, at committee meetings and additional technical briefings are provided (e.g. covering risk, treasury management, etc.)  Members may also receive additional specific training where they serve on other committees and some 'soft skills' training e.g. chairmanship skills can be requested through HR
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?	✓		

18	Is adequate secretariat and administrative support to the committee provided?	✓			
<b>Effectiveness of the committee</b>					
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		✓		Committee minutes and recommendations are provided to Full Council. While there is not generally 'positive' feedback, nothing adverse is generally raised by either Full Council or the external auditors
20	Are meetings affective with a good level of discussion and engagement from all the members?		✓		The current Chairman directs members of the committee to the key areas for discussion Attendance / engagement have been a recent concern and the start time of meetings has been altered in 2018 in order to improve this
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			✓	While the committee has the power to question specific officers, this is generally on an exceptional basis (e.g. the special committee meeting in 2017 covering the Local Property Company) The Guidance states " <i>The audit committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. In the most recent CIPFA survey, this was an area that heads of audit identified for improvement in their audit committees.</i> " This is therefore something for consideration e.g. if there are areas of concern / low assurance from the work of internal or external audit, long outstanding actions from the AGS or internal audits, etc.
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	✓			Recommendations from the committee are referred to Full Council Those from the cyclical work of the committee (e.g. treasury management) are generally accepted, some recommendations will be subject for challenge and debate (e.g. regarding Members' allowances, the Local property Company, etc.)
23	Has the committee evaluated whether and how it is adding value to the organisation?		✓		The Guidance states "Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives." An appendix to the Guidance identifies areas where / examples of how the committee can add value and these are generally embedded in its operation
24	Does the committee have an action plan to improve any areas of weakness?			✓	The operation of the committee and any weaknesses / areas for improvement will be considered by the Chairman with the appropriate officers
25	Does the committee publish an annual report to account for its performance and explain its work?	✓			Chairman's Annual Report is presented to Full Council for approval

(From CIPFA's Audit Committees: Practical Guidance for Local Authorities and Police, 2018)

Stephen Pearse  
Chief Internal Auditor \_\_\_\_\_

Cllr Terence Chapman  
Chairman of Audit & Governance \_\_\_\_\_

Presented to the Audit & Governance Committee at its meeting of 26 July 2018, in association with the Internal Audit Annual Report & Opinion

**AGENDA ITEM NO.16****ARUN DISTRICT COUNCIL****REPORT TO AND DECISION OF AUDIT & GOVERNANCE  
COMMITTEE  
ON 26 JULY 2018****PART A : REPORT****SUBJECT:** Progress Against the Audit Plan**REPORT AUTHOR:** Stephen Pearse, Chief Internal Auditor**DATE:** July 2018**EXTN:** 37561**PORTFOLIO AREA:** Corporate Support**EXECUTIVE SUMMARY:**

Each year Internal Audit undertakes its work against an annual audit plan, as approved by the Audit & Governance Committee prior to the start of the financial year

The Committee is required to oversee the provision of an adequate and effective internal audit service

**RECOMMENDATIONS:**

Members of the Audit & Governance Committee are requested to note the content of the progress report provided

**1. BACKGROUND:**

An outline Audit Plan was presented to, and approved by, the Committee at its February 2018 meeting reflecting the resource currently available. The aim of the plan was to ensure that mandatory work is completed, that there is appropriate involvement in the progress of the 2020 Vision initiative / ongoing transformation and to progress audit work on the priority / highest risk areas identified.

However, the Committee was advised that, although the revised management structure has been finalised, some lower level organisational changes are still being progressed and there is still considerable uncertainty as to where audit resource may be required in the year.

The attached report identifies the main areas of work undertaken by the Internal Audit section to July 2018.

**2. PROPOSAL(S):**

It is proposed that the Committee notes the content of the report

**3. OPTIONS:**

To note the contents of the report, or not		
<b>4. CONSULTATION:</b>		
Has consultation been undertaken with:	<b>YES</b>	<b>NO</b>
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	<b>YES</b>	<b>NO</b>
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
<b>6. IMPLICATIONS:</b>		

<b>7. REASON FOR THE DECISION:</b> The Committee notes the content of the progress report provided
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<b>8. BACKGROUND PAPERS:</b> N/A
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### Audit Progress

At the Audit & Governance Committee meeting of 22 February 2018, the Committee agreed an outline plan for the section for 2018/19.

Since the plan was provided to the Committee, work has been undertaken in the following areas:-

<u>Code</u>	<u>Title</u>	<u>Work performed</u>
RE03	Main Accounting	<ul style="list-style-type: none"> <li>Audit review of Budget processes under the e5 system <b>Reported to A&amp;GC 26/7/18</b></li> <li>Input to revised Financial Regulations progressed by Finance which have been reviewed by the Constitution Working Party and are due for approval by Full Council in July 2018</li> </ul>
RE04	Purchase Ledger	<ul style="list-style-type: none"> <li>Review of processes for corporate credit cards being progressed</li> </ul>
RE08	Payroll	<ul style="list-style-type: none"> <li>Monthly joiners and leavers checks</li> <li>Enhanced key control checks review being progressed</li> </ul>
CS16	Housing Benefit (& Council Tax Reduction)	<ul style="list-style-type: none"> <li>Liaison with Finance, Procurement, Benefits and external audit in respect of arrangements for future Housing Benefit Subsidy Claim certification</li> <li>Monthly new claim calculation checks</li> </ul>
CS17	Council Tax	<ul style="list-style-type: none"> <li>Annual test checks on CT precept calculations</li> </ul>
CP03 MS01	Corporate Governance Annual Governance Statement	<ul style="list-style-type: none"> <li>Annual review of compliance against the Council's local Code of Corporate Governance</li> <li>Identification of updates required to the Council's Code of Corporate Governance</li> <li>Preparation of the updated Annual Governance Statement</li> <li>Draft AGS published on website with draft Accounts (by 31 May) and provided to external audit <b>Reviewed by G&amp;R Group 4/18</b> <b>Reported to A&amp;GC 26/7/18</b></li> </ul>
MS03	RIPA	<ul style="list-style-type: none"> <li>Advice provided to service areas in respect of queries concerning possible use of surveillance, whether this would fall within the scope of the RIPA legislation and other options available</li> </ul>
MS04	NFI	<ul style="list-style-type: none"> <li>The NFI Council Tax Single Person Discount exercise reports were received in December 2017. Review was delayed awaiting an updated version of the Electoral Roll to assist in the identification of records that have already been altered This has now been completed – large numbers of</li> </ul>

		<p>'false' matches have been excluded and the remaining cases passed to Revenues for consideration</p> <p>'Rising 18' cases were also reviewed and a small number of queries passed to Revenues</p> <p><b>Information on the NFI is included in the Annual Counter-Fraud Report presented to A&amp;GC</b></p>
CP02	Information & Data Governance	<ul style="list-style-type: none"> <li>• Liaison with relevant staff in respect of GDPR preparation requirements and review of draft policies / changes, prior to their presentation to CMT</li> <li>• <i>Regular updates are being provided to CMT by the Group Head of Council Advice &amp; Monitoring Officer</i></li> <li>• Consideration of the legal basis for Internal Audit holding and 'processing' personal data and relevant Privacy Notices (e.g. for the NFI) – published on Council website</li> <li>• Review of data and documents held by Internal Audit and destruction in line with agreed retention strategies</li> </ul>
CS12	Information Technology	<ul style="list-style-type: none"> <li>• Review and update of the work performed in 2014 on Disclosure &amp; Barring Service (DBS) checks for staff (linked to the Council's Public Services Network certification and use of DWP and GCSx services). Results were passed to the HR Manager for review and update</li> </ul>
CS14	Information Security Policies	<ul style="list-style-type: none"> <li>• Linked to GDPR, Information Security Group (ISG) discussion and review of policies e.g. Information Security Policy and the Internet &amp; Email Acceptable Usage Agreement</li> <li>• Review and update of policies for approval by CMT</li> <li>• Liaison with ICT staff regarding the processes for staff testing on the policies via e-form</li> </ul>
CS15	PCI-DSS Compliance	<ul style="list-style-type: none"> <li>• Confirmation with Contact Centre management that the Red Box software installed as part of the telephony upgrade operated effectively in muting call recording when card payments are being taken by telephone to meet PCI-DSS compliance requirements</li> </ul>
PR07	FMS Support / Replacement	<ul style="list-style-type: none"> <li>• A review of 'lessons learnt' from the implementation of the new e5 system has been progressed, together with consideration of changed budget preparation processes. <i>The draft report is due to be discussed at CMT on 17/7/18</i></li> <li>• As a result of this, a number of control issues regarding the alteration and re-authorisation of orders were discussed with staff in Procurement, Finance and a number of service areas. Data extracts were used to identify the extent of the issue and to identify the areas involved</li> <li>• Further data testing on order amendment issues</li> </ul>
IN02 CP05	Fraud & Corruption Fraud & Corruption	<ul style="list-style-type: none"> <li>• Compilation of data for publication to meet Government Data Transparency Code requirements</li> <li>• Compilation and submission of data for CIPFA annual fraud survey</li> <li>• Preparation of Annual Counter-Fraud Report <b>Reported to A&amp;GC 26/7/18</b></li> </ul>

AD08	Audit Standards & Quality (PSIAS/QAIP)	<ul style="list-style-type: none"> <li>Update of appropriate Arun internal audit documents</li> <li>Preparation of self-assessment to be used in Arun's future EQA</li> <li>Undertaking the External Quality Assessment (EQA) for Wealden DC and providing a report on the outcome (this is on a mutual support basis across the Sussex Audit Group)</li> </ul>
ES01	Environmental Health	<ul style="list-style-type: none"> <li>Liaison with Project Manager in respect of testing / development and preparation of data for migration to the new system</li> </ul> <p>The amount of work involved and resourcing issues have now required the implementation of Phase 1 of the project to be put back to September 2018</p>
ES06	Leisure Strategy / Management	<ul style="list-style-type: none"> <li>A governance review of the new leisure centre project is being planned</li> </ul>
CP06	Ethics	<ul style="list-style-type: none"> <li>A review of ethical issues (as recommended by CIPFA) is being progressed</li> </ul>
CP13	Grants & External Funding	<ul style="list-style-type: none"> <li>Sample testing of disabled facilities grant cases in order to provide certification to WSCC on the use of the Integration and Better Care Fund: Disabled Facilities Grant Capital Determination 2017-18</li> </ul>
CS01	Housing Services - Homelessness	<ul style="list-style-type: none"> <li>A review of the processes in place for dealing with homeless cases has been progressed and interim finding reported to Housing management. Further work is on hold, pending a possible restructure and review of processes in the area</li> </ul>
CS06	Human Resources	<ul style="list-style-type: none"> <li>At the request of the Human Resources Manager a review of the Council's Job Profiling scheme / decisions is being planned, in conjunction with Unison</li> </ul>
MS05	Contract Checking	<ul style="list-style-type: none"> <li>Sample checks on contract compliance with Council Standing Orders and contract management in respect of financials</li> </ul>
RE05	Value Added Tax	<ul style="list-style-type: none"> <li>Review and update of the work performed in 2015 on validity and recording of VAT Registration numbers (now in the e5 financial management system). Results were passed to the Council's Insurance &amp; Risk Officer for review</li> </ul>



### Audit Progress

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**AGENDA ITEM NO.17****ARUN DISTRICT COUNCIL****REPORT TO AND DECISION OF AUDIT & GOVERNANCE  
COMMITTEE  
ON 26 JULY 2018****PART A : REPORT****SUBJECT:** Summary of Findings From Reports Issued (Feb – June 2018)**REPORT AUTHOR:** Stephen Pearse, Chief Internal Auditor**DATE:** July 2018**EXTN:** 37561**PORTFOLIO AREA:** Corporate Support**EXECUTIVE SUMMARY:**

To present a summary of the significant findings arising from audit reports issued between February and June 2018

**RECOMMENDATIONS:**

Members of the Audit & Governance Committee are requested to note the content of this report

**1. BACKGROUND:**

Each year Internal Audit is required to undertake an annual audit plan, as approved by the Audit & Governance Committee at the beginning of the financial year.

The Committee is required to oversee the provision of an adequate and effective internal audit service. Part of this process is to monitor delivery of the plans and to receive summaries of reports issued.

**2. PROPOSAL(S):**

It is proposed that the Committee notes the content of the report

**3. OPTIONS:**

To note the contents of the report, or not

**4. CONSULTATION:**

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓

Other groups/persons (please specify)		✓
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	<b>YES</b>	<b>NO</b>
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
<b>6. IMPLICATIONS:</b>		

**7. REASON FOR THE DECISION:**

The Committee notes the report containing the significant findings from recent audit reports issued

**8. BACKGROUND PAPERS:**

N/A



**Summary of Internal Audit Report Findings - Reports Issued 26/01/2018 To 30/06/2018**

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
RE03 2017/18 - Main Accounting	Substantial	<p><b>Training</b></p> <p>1.A revised timetable for the budget should be implemented for 2018/19 with greater flexibility.</p> <p>2.Training should be made mandatory for all Group Heads and Budget Managers and this should be endorsed by the Corporate Management Team (CMT). An increased number of training sessions and advanced notice would aid in the achievement of 100% attendance.</p> <p>3.Communication between Accountants, Group Heads and their related Budget Managers is critical to ensure an effective process. It is suggested that meetings should be booked in advance to ensure that deadlines are adhered to. Frequent budget monitoring meetings should also be held between Accountants and Budget Managers to reinforce roles, responsibility and accountability.</p> <p>4.Consideration should be given to providing the training to Group Heads with their relevant Budget Managers. During each training session a cohesive approach and timetable can be agreed that will meet the overall Finance deadlines.</p>	Medium	Carolyn Martlew	<p>1.Agreed: The budget setting timetable for 2019/20 will have more training dates and provide greater flexibility. A significant number of training sessions have been held for Final Accounts which have been very well attended. These have been more flexible and have included training dates over a number of weeks to enable greater attendance. Group Heads have been encouraged to attend with their budget managers. As this model appears to be working well it will be followed up with budget monitoring training during the year and another set of training dates for budget setting 2019/20.</p> <p>2. Agreed but the level of training will differ between the groups depending on the complexity and knowledge of their budgets (and usage of FMS during the year).</p> <p>3.Agreed: Meetings with the Group Heads as budget holders and their delegated budget managers are becoming more frequent but this is still to some extent dependent on the Budget Manager and the Accountant. We will carry out a review on whether this is working effectively during the year.</p> <p>4.Agreed: The training for the budget</p>

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
					<p>setting process for 2018/19 was subject to very tight deadlines. The self- service process is very uncomplicated as it is based on simple Excel spreadsheets that are returned to the Accountants as email attachments. The issues that arose were more around knowledge of budgets and the requirements of Group Heads (as budget holders) to ensure that budgets were completed and submitted on time (with the assistance of the Accountants). There was some confusion over which budgets are corporately controlled etc. This will be reviewed before the next working paper report is rolled out on FMS. This also includes the arrangements for budgets like Grounds Maintenance where the budget is determined by the one department on behalf of others. The completed working papers including documentation of basis for calculation (where submitted) will be made available to Group Heads as a basis for the 2019/20 budget. This will form a good basis on which to build the budgets for 2019/20.</p> <p>The process for 2018/19 was rushed and would have benefited from more testing before being rolled out but the restructure gave a much needed catalyst for a change in the culture. Delay in implementation by a year had the risk of the old ways becoming the norm within the new Groups. On the whole the benefits outweighed the risk. I have not encountered resistance from Group Heads but I have observed resistance from both budget managers and Accountants to the perceived changes in responsibility. Group Heads as the responsible budget holders have significant delegated authority for</p>

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
RE03 2017/18 - Main Accounting	Substantial	<p><b>Engagement</b></p> <p>5.If the self- service process is viewed as the process for the future then this needs to be endorsed from the top. The importance of the budget should be emphasised by CMT, particularly during the budget preparation period.</p> <p>6.The requirements to engage in the budget process should be continuously reinforced by CMT with adequate reporting on monitoring engagement or failure to engage being reported and addressed.</p>	Medium	Corporate Management Team	<p>virement. They therefore need to be aware of what is included in their budgets and how their estimates have been calculated. As budgets are forward looking they cannot be the responsibility of Service Accountants whose role includes help with historical data and to offer advice on estimation techniques. There has to be a fundamental shift in attitudes for the new system to work efficiently and effectively. The role of finance to provide professional advice needs to be embedded in the Finance Team.</p> <p>Agreed: Training on the e5 system in general is required in addition to the specific budget training.</p>

# Local government audit committee briefing







## Contents at a glance



Government and  
economic news **2**

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Accounting,  
auditing and  
governance **4**

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Regulation news **6**

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Find out  
more **9**

This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.



## Government and economic news

### EY ITEM Club – Local Government Economic Briefing Q2, May 2018

The EY ITEM Club has produced a briefing that provides a view of economic shifts and trends for local authorities to consider. It suggests that 2018 will see a continuation of the mediocre economic performance seen in 2017. This will provide a number of challenges for local authorities at a time when the need to achieve key objectives, such as driving economic growth locally, become ever more important. The briefing covers three main areas:

#### Continued economic pressures in 2018

Local authorities are likely to find the UK's economic performance stumbling through 2018, with GDP growth now failing to keep up with a rosier outlook for the global economy.

The UK's GDP growth averaged 1.7% throughout 2017, outperformed by growth across the G7 economies. This reflects an economy that has displayed a degree of stability in recent quarters, but also a lack of momentum in both absolute and relative terms. GDP growth is forecasted to remain consistent at 1.7% 2018 and 2019, representing a sub-par growth by the standards of both history and the UK's international peers.

A number of economic metrics are likely to influence local authority decision making in the year ahead:

- ▶ The CIPS/Markit Index indicated a tough few months for the UK economy at the start of 2018, influenced by a prolonged bout of bad weather. The construction sector was worst hit, with the Index suggesting a slump in March to 47.0 from the previous month's 51.4, suggesting a contraction in activity. This could impact both infrastructure and house building activity
- ▶ 2017's increasing inflation rate created the chief headwind to growth in the year. However from a consumer's point of view, the growth in average earnings will likely outpace the inflation rate. Local authorities will need to consider the impact on their workforce, including consideration towards workforce retention
- ▶ The economy faces a headwind from the prospect of rising interest rates, caused by inflation likely to stay above the 2% target and the tone of the Bank of England Monetary Policy Committee. The EY ITEM Club forecasts two further interest rate rises of 0.25% in the coming year. Local authorities need to consider the impact of this, for example on variable rate borrowing costs and also on broader treasury management plans

## Positive Signs for some on business Rates Retention

A recent study by the Institute for Fiscal Studies (IFS) has reignited the debate about the potential financial implications associated with 100% business rates retention. The IFS study forecasts that councils included in the 100% retention pilot scheme will gain an additional £870mn in funding next year as a result, representing an approximate 3.6% increase in their collective spending power.

Whilst this provides an incentive to councils for growing their local economies, critics argue that areas less able to generate business income may become vulnerable to funding constraints. For example, the IFS forecasts suggest that London councils could gain £430mn (£49 per person, or 4.9% of core spending power) from the scheme, compared to a gain of just £2.5mn (£5 per person, or 0.6% of core spending power) in Liverpool. As a result, these estimates suggest that Liverpool City Council would have derived a greater financial benefit if total gains made by pilot authorities had been distributed nationally on the basis of relative needs.

One of the primary concerns regarding distributional impacts is the potential lack of correlation between local authority spending needs and the perceived potential for business rates growth. Further analysis is required to determine the potential impact of rate retention in light of where local authority funding needs may emerge in the years to come.

## Mitigating the risk of market failure in health and care systems

Allied Healthcare, one of the country's largest home care providers, has successfully agreed a Company Voluntary Arrangement (CVA) allowing it to agree a payment plan with its creditors.

Changes to the Care Act, which came into effect in 2015, means that if a provider like Allied were to stop trading, local authorities would need step in to protect individuals receiving care. This demonstrates the need for a continued focus on the successful integration of care and the role of local authorities in leading this transformation is paramount.

Data is a fundamental enabler to the successful integration of health and social care; it also presents one of the areas of greatest complexity. Key stakeholders across health and social care

systems should recognise the role of sharing data in minimising the risk of information asymmetry. Focus is already being applied to establishing platforms that allow market participants to share data not just on an individual's care needs, but also on broader lifestyle data. Whilst this has the potential to allow for the use of transformative technologies such as artificial intelligence, it also has the potential to support more effective pricing and resource allocation, leading to the better functioning of the health and care market.

## NAO Report Financial sustainability of local authorities 2018

In March 2018 the National Audit Office (NAO) published a report Financial sustainability of local authorities 2018. The scope of the report was to review developments within the sector and to understand the impact of funding reductions on the service and financial sustainability for local authorities. One of the key findings of the report was that there had been a real-terms reduction in local authority spending power by 29% between 2010-11 and 2017-18.

Spending on services that have significant statutory responsibilities, such as adult social care have only seen a reduction in spending of 3% in real terms; whereas in contrast spending on more discretionary areas, such as planning, housing services, highways and cultural related services, have seen a greater reduction of spending between 35% to 53% in real terms. These spending reductions have seen reductions in front lines services such as weekly domestic waste collection (reduced by 34% between 2010-11 and 2016-17) and numbers of libraries (reduced by 10% between 2010-11 and 2016-17).

Another key finding of the NAO report is that the many local authorities are relying on using their reserves to fund the provision of services, which is not sustainable. The report found that 11% of single-tiered and county councils had the equivalent of less than three years' worth of total reserves if they continued to use their reserves at the rate they did in 2016-17. Therefore achieving strong financial resilience is imperative to maintaining the financial sustainability of the provision of services by local authorities. Northamptonshire County Council issued a s114 notice in February 2018, indicating that it was at risk of spending more in the financial year than it had resources available. This highlights the increased risk of financial sustainability for local authorities.





# Accounting, auditing and governance

## IFRS 9: Financial Instruments ... just an accounting change isn't it?

On 4 April 2018 the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2018/19 was issued by a joint board of CIPFA/LASAAC. The updated Code of Practice for 2018/19 introduces two new reporting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, which was discussed in detail in the last briefing.

The implementation of IFRS 9 in the Code could well have an impact on Local Authority budgets and ultimately General Fund reserve levels.

The IFRS impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

### Classification changes

Currently, many authority financial assets are classified as 'Available for Sale'. For these assets, an accounting adjustment is permitted to ensure that movements in the value of these assets does not impact on the General Fund. Under IFRS 9, the 'Available for Sale' classification no longer exists. Authorities will therefore have to reclassify their financial assets into one of the three classifications allowed under the standard: amortised costs; fair value movement through other comprehensive income; and fair value movement through profit and loss. It is this final category

which is causing authorities concern, as any movement in the value of assets in that classification will impact directly on General Fund balances, and at present there is no permitted accounting adjustment to remove that impact.

### Collective Investment Schemes

Many authorities are now investing significant amounts in a range of collective investment schemes, such as the CCLA Local Authority Property Fund. At present there is significant debate about the classification of these funds, with the majority view being that they would be classified as fair value movement through profit and loss, with those movements therefore impacting on General Fund. The alternative view is that these funds meet the definition of equity and could therefore be reclassified to fair value movement through other comprehensive income, with the value movements not impacting General Fund. This specific issue is being considered by central government and CIPFA, and it is likely that a permitted accounting entry will be introduced to allow the impact of value movements for these type of funds to be removed from the General Fund.

### Impairment of financial assets

Under the current approach, Local Authorities only have to provide for impairments to financial assets when there is objective evidence that all of the value of the asset may not be recovered; IFRS 9 introduces a new model for financial asset impairment. Under the new impairment model, Local Authorities will need to make an estimate of the potential loss on all financial assets at the inception of that asset, even if there is no objective evidence that

a loss will occur. This will obviously result in a higher impairment charge for financial assets going forward, and that charge will impact on General Fund.

In summary, the introduction of IFRS 9 into the Code is more than just an accounting change and authorities will have to keep a very close eye on the budgetary.

## **CIPFA/LASAAC consultation on IFRS 16 Leases**

CIPFA has issued the first of a series of briefings intended to assist practitioners engage in the consultation process for the adoption of IFRS 16 in the 2019/20 Code. Each briefing will focus on particular aspects of the standard whilst also updating stakeholders on latest developments. The first briefing focuses on recognition and measurement and the adaptations to the Code for the adoption of IFRS 16.

IFRS 16 replaces IAS 17 Leases and its related interpretations. It will apply to the 2019/20 financial statements subject to the consultation process and CIPFA/LASAAC's decisions for adoption in the 2019/20 Code. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority.

The new leasing standard will lead to a significant change in accounting practice for lessees for whom the current distinction between operating and finance leases will be removed. Instead it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. At the commencement date of the lease, a lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to make lease payments for the asset.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term. Subsequently, lessees increase the lease liability to reflect interest, and reduce the liability to reflect lease payments made (as with finance leases under IAS 17).

The right of use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the lessee's initial direct costs (e.g., commissions), and an estimate of restoration, removal and dismantling costs. Subsequently, the right of use asset is depreciated in accordance with IAS 16. (In certain circumstances, alternative subsequent

measurement bases for the ROU asset may apply (in accordance with IAS 16 and IAS 40 Investment Property).

The standard has a set of specific mandatory disclosure requirements (e.g., expenses, cash flows), and also an additional requirement for a lessee to disclose any further information a user would need to assess effect leases have on the financial statements.

CIPFA will be liaising with a number of authorities across the UK to consider the cost and benefit implication of adoption of IFRS 16, as well as the impact on information requirements, the processes and systems used by local authorities.

Future briefings to support the implementation of this new standard will cover topics such as identifying the lease, recognition exemption, issues for lessors and transitional reporting arrangement, to name a few. A readiness assessment questionnaire has been included in the consultation to help local authorities in their preparations. CIPFA/LASAAC is requesting authorities to share this information in order to assess the overall preparedness for adoption on a larger scale.

## **Audit Committee Effectiveness Toolkit**

Audit Committees are a vital part of any entity as they are charged with overseeing governance arrangements throughout their organisations. Over the past few years Audit Committees have experienced enhanced scrutiny from regulators and stakeholders with new guidance on good governance arrangements, public sector internal audit standards, managing risk and preventing fraud; whilst at the same time there has been the need to deliver better value for money for taxpayers.

Therefore it is vital that every Audit Committee is prepared, ready and are able to fulfil their role in an effective manner. In order to assist Audit Committees in monitoring their performance, and assessing their effectiveness, EY has developed a Government and Public Sector specific 'Audit Committee Effectiveness Toolkit'.

The toolkit provides an opportunity for Audit Committees to critically assess their own effectiveness to determine if they meet the minimum standards as set out in CIPFA's Position Statement for Audit Committees. The toolkit will also help all members to understand their respective roles and responsibilities of being a member of an Audit Committee.

This toolkit is available as an additional service that can be provided. Further information regarding the Audit Committee Effectiveness Toolkit is available upon request through your local audit team.

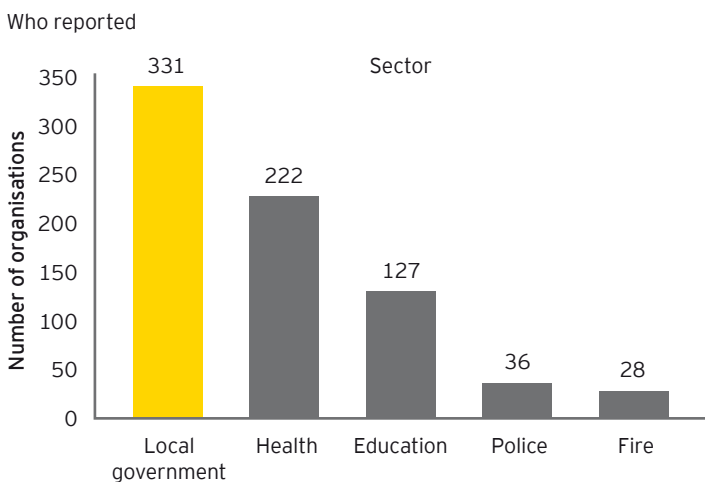


# Regulation news

## Gender pay gap reporting

On 4 April 2018, employers in Great Britain with more than 250 staff were required by law to publish data on Gender Pay Gap for the first time. EY has analysed the gender pay gap data reported by 744 public sector bodies, including 331 local authorities (see Figure 1 below).

**Figure 1: Government and Public sector bodies reported on gender pay gap**



The gender pay gap is calculated by determining the difference between the mean or median hourly earnings for men and women, as a percentage of men's hourly earnings. We have analysed the mean gender pay gap and the median gender pay gap below.

The education sector reported the largest average median pay gap (15.3%), whilst Local Government reported the lowest average median pay gap (5.8%), see Figure 2 below.

**Figure 2: Average median pay gap**

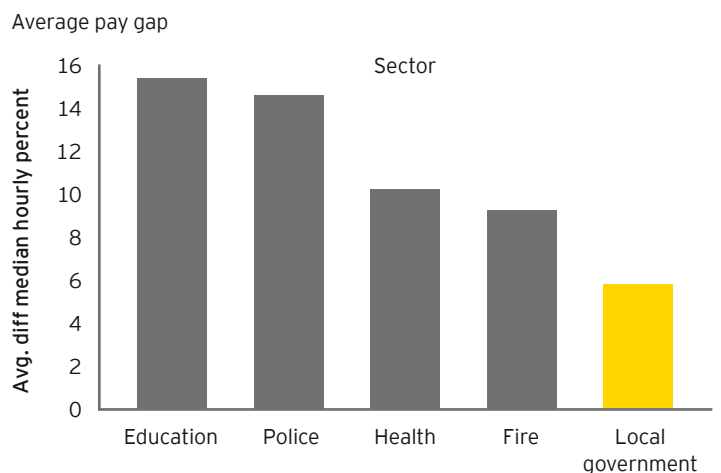
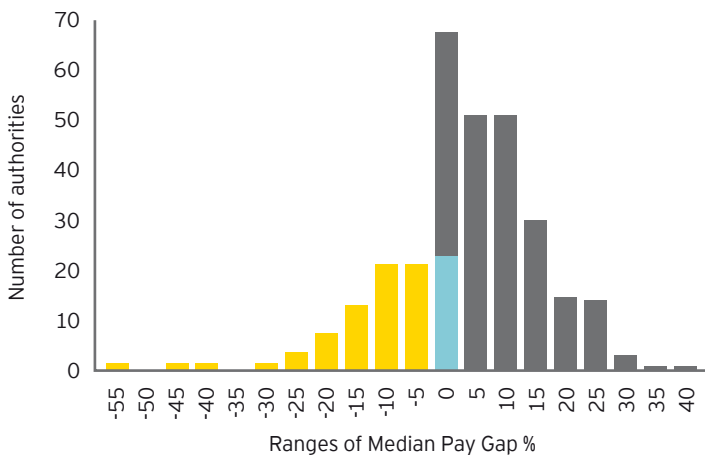


Figure 3 below sets out the % gap in median hourly pay between men and women reported by local authorities. This shows that 25 authorities reported a zero pay gap, 77 authorities reported a higher median pay for women than men, and the remaining 227 authorities reported men receiving a higher median pay for men than women.

**Figure 3: Difference in median hourly pay in LG**

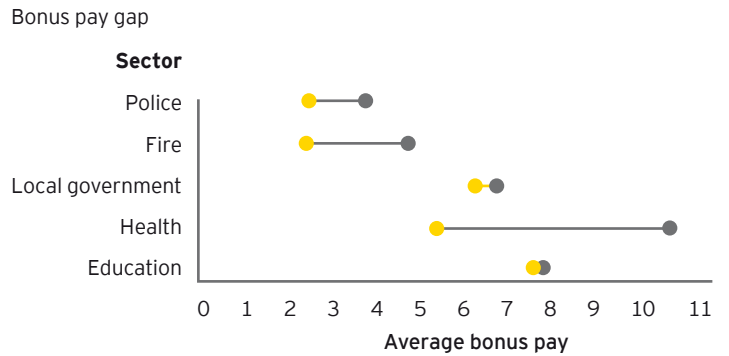
Difference in median hourly pay in fire sector, %



Difference in Median hourly pay as report by each organisation. Yellow represents instances where the median hourly pay was higher for women, Blue represents instances where there was no gender pay gap and grey corresponds to a median hourly pay gap where men are paid higher.

Figure 4 below compares the bonus pay gap between men and women across different sectors. This shows that local authorities have the second lowest bonus pay gap.

**Figure 4: Bonus pay gap in the public sector**



**Measure names**      **Sector**

Female bonus      Police      Local government      Education

Male bonus      Fire      Health

**Making Tax Digital (MTD) for VAT: changes from April 2019**

From April 2019 it will be compulsory for VAT registered local authorities to comply with new requirements to be in line with HMRC regulations. Local authorities will need to:

- ▶ Keep and preserve digital tax records
- ▶ File VAT returns directly with HMRC using MTD compatible software

Whilst these requirements may not initially seem too burdensome, where a local authority is preparing VAT returns manually from legacy systems or multiple unconnected systems it may be a challenge (and time consuming) to fully understand and implement the necessary changes to be compliant with the MTD requirements.

With around only nine months before the new regulation comes into force local authorities will need to make sure that they have an appropriate readiness plan in place in order to comply with the new MTD obligations.

EY is recommending that local authorities prepare for MTD by creating a 'roadmap to April 2019' as soon as possible to allow for suitable time to implement changes before the deadline. This 'roadmap' should include:

1. An assessment of the current state and readiness for change
2. Evaluation of available technology solutions

Further information can be found at the end of this briefing although where EY is the appointed auditor to an authority; it is prohibited from providing tax advice.

## National Minimum/Living Wage legislation

Recent investigations from HMRC have seen an increase in Public Sector employers struggling to comply with the National Minimum/Living Wage (NMW/NLW) legislation. The NMW/NLW minimum wage for those over 25 is currently £7.83. Lower rates exist for those aged under 25 and apprentices. Whilst the NMW/NLW rates have been well publicised a number of public sector employers have been struggling to comply. A report by the Low Pay Commission, published in September 2017, raised concerns regarding the high rate of NMW/NLW breaches and specifically highlighted education support assistants and teaching assistants. Given the diverse nature of work undertaken by local authority employees it is important to review contracts and working practices across the different activities undertaken. One notable example of HMRC focus has been the payments to care workers

for sleeping time. This has resulted in an increase in enforcement activity in this sector. Other significant areas of focus include:

- ▶ Salaried workers whose hours are not actively monitored
- ▶ Defined dress code policies which may reduce the NMW/NLW pay
- ▶ Deductions, such as car parking charges paid by employees on facilities owned by the local authority
- ▶ Salary Sacrifice which may in turn reduce the base pay for NMW/NLW

The impact of reputational damage from being publically named may outweigh any financial impact, which includes penalties of up to 200% of any arrears and lengthy HMRC investigations which could cover a period of six years.

EY have employed a number of former NMW/NLW Compliance Investigators, with significant knowledge and experience that will be able to provide insights on developing an effective approach to achieve compliance with legislation and improve monitoring procedures.

Further information can be found at the end of this briefing although where EY is the appointed auditor to an authority, it is prohibited from providing tax advice.



## Find out more

### EY Item Club forecast

<https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy#section1>

### Financial Sustainability: NAO Report

<https://www.nao.org.uk/press-release/financial-sustainability-of-local-authorities-2018/>

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

### Code of Practice Improvements

<http://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-201819-online>

<http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/new-code-improves-transparency-of-transactions-in-local-government-finances>

<http://www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-local-authority-accounting-in-the-united-kingdom,-c,-consultation-on-ifs-16-leases>

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings>

<https://www.gov.uk/government/consultations/ifrs-16-leases-exposure-draft-1801>

### Audit Committee Effectiveness Toolkit

Please contact your local audit team

### Making Tax Digital (MTD) for VAT: changes from April 2019

<https://www.ey.com/gl/en/services/tax/digital-tax---why-digital-tax>

<https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>

<https://www.icaew.com/en/technical/tax/making-tax-digital>

### National Minimum/Living Wage legislation Compliance

<https://www.gov.uk/government/publications/enforcing-national-minimum-wage-law>

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**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2018/2019**

<b>Date of Meeting: 25 July 2018</b>			
<b>Statement of Accounts</b>			
<b>Agenda Items</b>	<b>Subject</b>	<b>Lead Officer/Member</b>	<b>Comments</b>
1	Final Statement of Accounts 2017/18	Financial Services Manager	Draft version was provided to external audit and posted on the Council's website at 31 May 2018
2	Annual Governance Statement	Chief Internal Auditor	Draft version was considered by Chairman / Vice Chairman in May, provided to external audit and posted on the Council's website at 31 May 2018
<b>External Audit</b>			
3	Compliance With International Auditing Standards (statement from 'those charged with governance')	Committee Chairman	Letter agreed with (2017/18) Chairman and sent to external audit in April
4	Audit Results Report – ISA 260	Ernst & Young	
5	Fee Letter	Ernst & Young	
<b>Governance Framework</b>			
6	Local Code of Corporate Governance	Chief Internal Auditor	
<b>Treasury Management</b>			
7	Treasury Management Annual Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (12/9/18)
<b>Internal Audit</b>			
8	Annual Internal Audit Report & Opinion	Chief Internal Auditor	
9	Update on the work of Internal Audit	Chief Internal Auditor	
<b>Other Items</b>			
10	Annual Counter-Fraud Report	Chief Internal Auditor	Any urgent updates can be provided at other meetings
11	Chairman's Annual Report To Council	Chairman	To be presented to Full Council
12	Update on the progress of Council-owned companies	TBC	
13	Annual update on use of RIPA powers in the previous Municipal Year	Chief Internal Auditor	
<b>Work Programme</b>			
14	To agree the rolling work programme for 2018/2019	Chief Internal Auditor	Updates, etc.



**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2018/2019**

<b>Date of Meeting: 15 November 2018</b>			
<b>Statement of Accounts</b>			
<b>Agenda Items</b>	<b>Subject</b>	<b>Lead Officer/Member</b>	<b>Comments</b>
	There are no items currently planned for this meeting		
<b>External Audit</b>			
1	Annual Audit Letter	Ernst & Young	
<b>Governance Framework</b>			
2	Updated Strategic Risk Register	Chief Internal Auditor	
<b>Treasury Management</b>			
3	Treasury Management Interim Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (9/1/19)
<b>Internal Audit</b>			
4	Update on the work of Internal Audit	Chief Internal Auditor	
<b>Other Items</b>			
5	Policy reviews / updates (TBC)	TBC	
6	Update on the progress of Council-owned companies	TBC	
<b>Work Programme</b>			
7	To agree the rolling work programme for 2018/2019	Chief Internal Auditor	Updates, etc.

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2018/2019**

<b>Date of Meeting: 14 February 2019</b>			
<b>Statement of Accounts</b>			
<b>Agenda Items</b>	<b>Subject</b>	<b>Lead Officer/Member</b>	<b>Comments</b>
1	Accounting Policies for 2018/19 Accounts	Financial Services Manager	If CIPFA advise of any changed requirements, then an update will be provided at the July meeting
<b>External Audit</b>			
2	Audit Plan (and Progress Report)	Ernst & Young	Covering the audit of the 2018/19 Accounts
3	Annual Certification Report 2017/18	Ernst & Young	Confirmation will also be provided as to future certification arrangements
<b>Governance Framework</b>			
	There are no items currently planned for this meeting		
<b>Treasury Management</b>			
4	Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (13/3/19)
<b>Internal Audit</b>			
5	Annual Internal Audit Plan	Chief Internal Auditor	
6	Update on the work of Internal Audit	Chief Internal Auditor	
<b>Other Items</b>			
7	Update on the progress of Council-owned companies	TBC	
<b>Work Programme</b>			
8	To agree the rolling work programme for 2019/2020	Chief Internal Auditor	

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31/3/19

**Other items to be considered in Work Programme:-**

**Independent Members' Remuneration Panel**

- Recruitment / appointments
- Proposals for / progress of review
- Report on review / proposals for change to be passed by A&GC to Full Council

**Property Investment Fund**

- Progress reports, once it starts operating (Property & Estates Manager)

**Local Property Company**

- Progress reports, once it starts operating (S151 Officer / Cabinet)

**Governance & Risk Group updates**

Relevant policy reviews, updates, etc.