Public Document Pack

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Committee Manager Helen Burt (Ext. 37614)

14 February 2022

AUDIT & GOVERNANCE COMMITTEE

A meeting of the Audit & Governance Committee will be held in the **Council Chamber, Arun Civic Centre, Maltravers Road, Littlehampton, BN17 5LF** on **Tuesday 22 February 2022 at 10.00 am** and you are requested to attend.

Members: Councillors Clayden (Chair), Chapman (Vice-Chair), Bennett, Chace, Goodheart, Haywood, Northeast, Oliver-Redgate, Oppler, Staniforth and Tilbrook

PLEASE NOTE: Subject to Covid-19 Risk Assessments members of the public are advised of the following:

Where public meetings are being held at the Arun Civic Centre, in order to best manage safe space available, members of the public are in the first instance asked to watch the meeting online via the Council's Committee pages – the meeting will be available to watch live via the internet here.

a) Where a member of the public has registered a request to take part in Public Question Time, they will be invited to submit the question in advance of the meeting to be read out by an Officer. There will be limited public access to this meeting and admission for public speakers will be by ticket only, bookable when submitting questions. Attendees will be asked to sit in an allocated seat in the public gallery on a first come first served basis. Only one ticket will be available for per person.
b) It is recommended that all those attending take a lateral flow test prior to the meeting.
c) All those attending the meeting will be required to wear face coverings and maintain safe distancing when in the building/meeting room.
d) Members of the public must not attend any face to face meeting if they or a member of their household have Covid-19 symptoms.

*Any members of the public wishing to address the Committee meeting during Public Question Time, will need to email Committees@arun.gov.uk by **5.15 pm on Monday 14 February** in line with current Procedure Rules. It will be at the Chief Executive's/Chair's* *discretion if any questions received after this deadline are considered. Permitted questions will be read out by an Officer.*

For further information on the items to be discussed, please contact: committees@arun.gov.uk

A G E N D A

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

Members and Officers are invited 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 that they the interest in
b) whether it is a pecuniary, personal and/or prejudicial interest
c) the nature of the interest

3. MINUTES (Pages 1 - 6)

The Committee will be asked to approve as a correct record the Minutes of the Audit & Governance Committee held on 16 November 2021.

4. ITEMS 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 CIRCUMSTANCE

5. PUBLIC QUESTION TIME

To receive questions from the public (for a period of up to 15 minutes)

6. AUDIT RESULTS REPORT (Pages 7 - 50)

The Audit Results Report will be presented to Members of the Audit & Governance Committee by representatives from Ernst & Young LLP.
[20 Minutes]

Investment Strategy (AIS) 2022/2023 to 2024/2025 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council (9 March 2022).
[15 Minutes]

13. PROGRESS AGAINST THE AUDIT PLAN (Pages 313 - 320)

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.
[5 Minutes]

14. FEEDBACK & COMPLAINTS POLICY (Pages 321 - 346)

This report is asking the Audit & Governance Committee to adopt the attached Complaints Policy.
[15 Minutes]

15. WORK PROGRAMME (Pages 347 - 350)

The Committee is required to note the Work Programme for 2021/22.
[5 Minutes]

Note : If Members have any detailed questions, they are reminded that they need to inform the Chair and relevant Director in advance of the meeting.

Note : Filming, Photography and Recording at Council Meetings – The District Council supports the principles of openness and transparency in its decision making and permits filming, recording and the taking of photographs at its meetings that are open to the public. This meeting may therefore be recorded, filmed or broadcast by video or audio, by third parties. Arrangements for these activities should operate in accordance with guidelines agreed by the Council and as available via the following link Filming Policy

AUDIT & GOVERNANCE COMMITTEE

16 November 2021 at 10.00 am

Present: Councillors Clayden (Chair), Chapman (Vice-Chair), Chace, Haywood, Oliver-Redgate, Staniforth and Tilbrook

427. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillors Bennett, Goodheart and Northeast

428. DECLARATIONS OF INTEREST

There were no Declarations of Interest made.

429. MINUTES

The Minutes of the meeting held on 7 October 2021 were approved by the Committee. These would be signed at the end of the meeting.

430. PUBLIC QUESTION TIME

The Chair confirmed that no questions were submitted for this meeting.

431. AUDIT FEES 2019/20 UPDATE

Upon invitation of the Chair, the Internal Audit Manager introduced his report. He explained that since publishing the Agenda, the Committee has received a response from Public Sector Audit Appointments Ltd (PSAA), to say that following the review of the fee variation proposal, the variation they supported was roughly £14500, which was less than half of the fee variation. Through PSAA the Council had been allocated £22666 of Government funding to support affected local bodies to meet the anticipated rise in fees for 2020/21 audits. The PSAA reply (and also an additional letter from Ernst & Young) covering the delay to the commencement of the audit, provided some wording to be published by the Council to explain that the Accounts had not yet been audited and the reasons for this. This has been published with the unaudited draft Accounts on the Council's website and the external audit was currently underway.

There were no questions from Members.

The Committee agreed that they had noted the correspondence From PSAA updating the Council on the outcome of its review of the fee variation proposal.

432. ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITOR

Upon invitation of the Chair, the Interim Group Head for Corporate Support introduced her report, which explained the advantages and risks that could be adopted for future arrangements for the appointment of external auditors. It mentioned limited availability of suitable auditors and the requirement to set up an independent Audit Panel, which was the main disadvantage of both the stand-alone and joint procurement options.

There were no questions from Members.

The recommendations were Proposed by Councillor Chapman and Seconded by Councillor Oliver-Redgate.

The Committee

RECOMMEND TO FULL COUNCIL – that

1) Opting-in to the Sector Led Body for the procurement and appointment of external auditors with effect from 2023/24 be approved; and

2) The responsible Officers be authorised to opt-in to the Sector Led Body for the procurement and appointment of external auditors with effect from 2023/24.

433. TREASURY MANAGEMENT MID-YEAR REPORT 2021/22

Upon invitation of the Chair, the Senior Accountant (Treasury) introduced her report. She drew Members' attention to the interest rate forecast at 3.2 on Page 27, informing Members they had now been advised by Link Group that there would be an increase in December 2021 of up to 0.25% and in June 2022 of up to 0.50%, which was different to the figures shown in the table. Also on Page 30, Leads & Principality had now been added to the investment list which adhered to Category 4 on page 41 of the approved strategy.

There were no questions from Members.

The recommendations were Proposed by Councillor Chapman and Seconded by Councillor Chace.

The Committee

RECOMMEND TO FULL COUNCIL – that

(i) the actual prudential and treasury indicators for 2021/22 contained in the report be approved;

(ii) the treasury management mid-year review (this report) for 2021/22 be noted;

(iii) the treasury mid-year activity for the period ended 30th September 2021, which has generated interest receipts of £225,000 (0.62%) year to date, against a budget of £332,000 (0.64%) for the full year be noted.

(iv) the addition of Leeds and Principality Building Society to the lending list adhering to the required criteria of category 4 be noted.

434. ARUN DISTRICT COUNCIL PARTNERSHIPS REGISTER

Upon invitation of the Chair, the Internal Audit Manager introduced the report. He explained that he was presenting the report on behalf of the Group Head of Policy, who was unable to attend the Meeting. He highlighted paragraph 3.2, an agreed definition of what constituted a partnership arrangement for this purpose, and paragraph 2.7 which excluded purely contractual relationships with key partners (e.g. Biffa, Freedom Leisure, etc.), which should have formal governance and reporting in place. The Register would need to be maintained by Officers and reviewed periodically by Members and, should it be required, further review of some partnerships may be requested, to consider the role of the Council and to confirm that appropriate benefits were being achieved.

A discussion then took place, and the following points were raised:

- The report was welcomed, along with the opportunity for Internal Audit to carry out detailed reviews, as prior to this there had been no mechanism to carry out Partnership reviews.
- Clarification was sought on how often the register would be reported back to the Audit & Governance Committee, and also how the work would be resourced and funded. It was agreed the Committee Manager would request an update from the Group Head of Policy, to be circulated to Members.

The recommendation was Proposed by Councillor Chapman and Seconded by Councillor Staniforth.

The Committee

RESOLVED

That the Audit and Governance Committee review the Partnerships Register on an annual basis and direct Internal Audit to carry out detailed reviews where necessary

435. UPDATED RISK MANAGEMENT POLICY STATEMENT AND STRATEGY

Upon invitation of the Chair, the Internal Audit Manager introduced the report.

It was observed by Members that the Terms of Reference of Committees would be subject to change as Arun District Council moved forward corporately. This would potentially be subject to close scrutiny, possibly by a joint Officer/Member team, to ensure Risk matters were not missed.

The recommendation was Proposed by Councillor Oliver-Redgate and Seconded by Councillor Haywood.

The Committee

RESOLVED

That the updated Risk Management Policy Statement & Strategy, which was to be amended by the Internal Audit Manager to reflect the recent name changes of some Committees, was considered and noted

436. UPDATED STRATEGIC RISK REGISTER 2021/22

Upon invitation of the Chair, the Internal Audit Manager introduced the report. He explained the Council's updated Strategic Risk Register was presented on behalf of the Governance & Risk Group following its annual review. The document had last been noted by the Committee in July 2020 following an urgent interim review to include the significant Covid-19 risk that had materialised. The Governance & Risk Group's review had agreed some wording changes and updates to various risks. No risks had been added or removed and the only risks that required altered scoring by the Group were Elections (17) and the Coronavirus Pandemic (20). The Elections risk had been increased in 2020 as there was a backlog of events and there were concerns as to how an election could be held with requirements to meet Covid-19 social distancing, etc. As the situation became less restrictive and the May 2021 elections were successfully conducted it was felt appropriate that this risk was reduced slightly. The Coronavirus Pandemic risk had been included urgently in 2020 at the highest red level as the situation developed from March onwards with significant restrictions in place and massive uncertainty for the future. The situation had since improved with most restrictions currently removed and far more was now known. In light of this it had been felt appropriate to reduce the risk score slightly. However, this still remained a significant risk (rated red) as the situation remained under review nationally

The Internal Audit Manager was thanked for presenting the report on behalf of the Risk Management Group. It was stated that this was an important document, and it was worth Members continuing to be aware of the areas of risk

The recommendation was Proposed by Councillor Chace and Seconded by Councillor Oliver-Redgate.

The Committee

RESOLVED

That the revised Strategic Risk Register was considered and noted

437. PROGRESS AGAINST THE AUDIT PLAN

Upon invitation of the Chair, the Internal Audit Manager introduced the report.

The report was noted by the Committee.

438. WORK PROGRAMME

The Committee then noted the Work Programme.

(The meeting concluded at 10.30 am)

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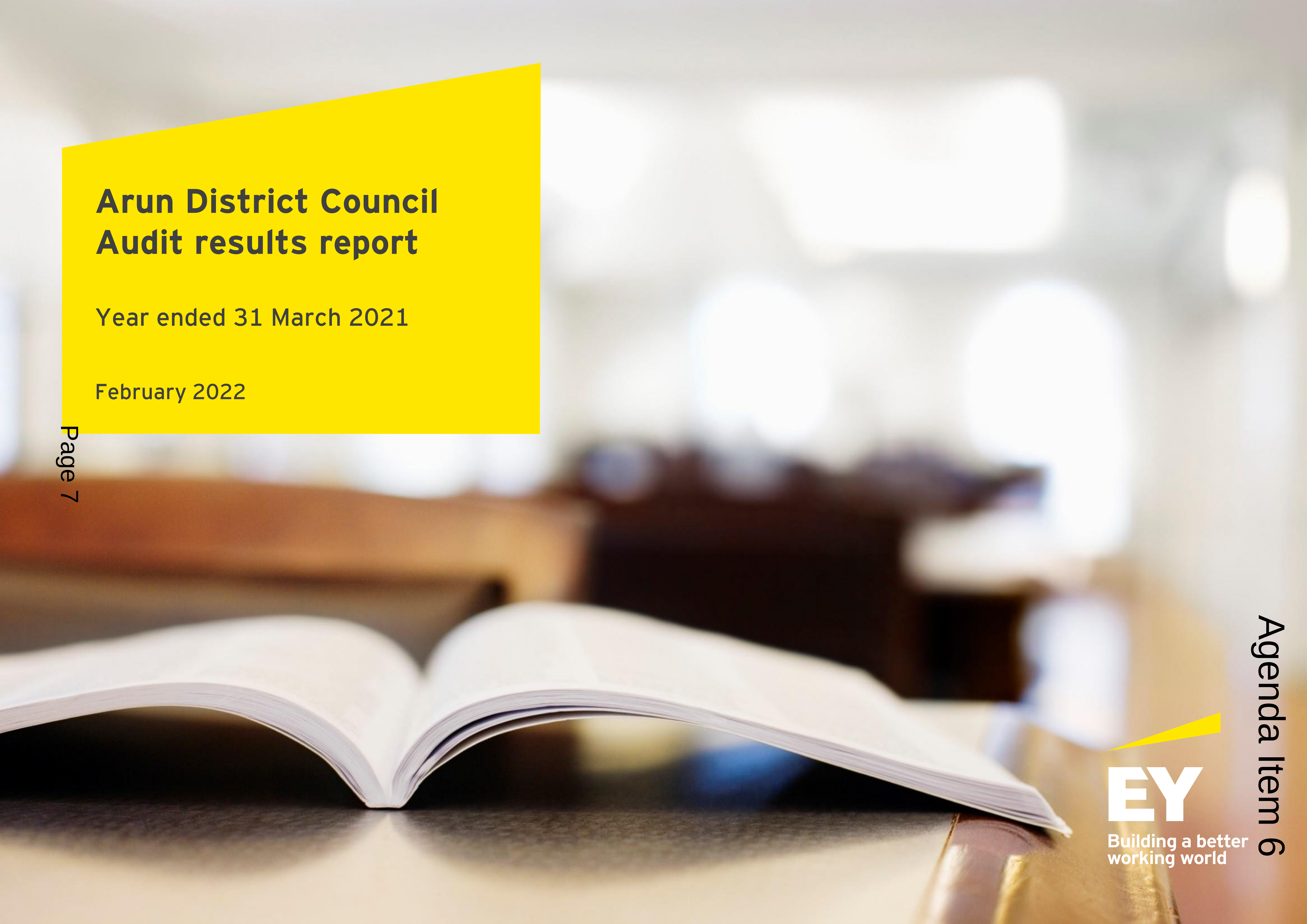

Arun District Council Audit results report

Year ended 31 March 2021

February 2022

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Agenda Item 6

Building a better working world

7 February 2022

Members of the Audit & Governance Committee

Arun District Council

Dear Audit & Governance Committee Members

2020/21 Audit Results Report

We are pleased to attach our audit results report summarising the status of our audit for the forthcoming meeting of the Audit & Governance Committee. We will update the Audit & Governance Committee at its meeting scheduled for 22 February 2022 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 31 March 2021 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Arun District Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit & Governance Committee meeting on 22 February 2022.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit & Governance Committee members and management of Arun District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee, and management of Arun District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee members and management of Arun District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our audit planning we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following updates:

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment

	Planning Materiality	Performance Materiality	Audit Differences
Planning	£1.913 million	£1.435m	£0.096m
Final	£1.969 million	£1.477m	£0.098m

Auditing accounting estimates

A revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The most significant impact of the revised standard has been on the gross pension liability. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. In relation to the IAS19 liability, neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, were able to access the detailed models of the actuaries in order to evidence these requirements. We therefore modified our planned approach and undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We have involved our pensions specialists in order to complete this work. The results of this exercise showed the actuarial estimate to be accurate within a reasonable range.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

Executive Summary

Status of the audit

We have substantially completed our audit of Arun District Council's financial statements for the year ended 31/3/2021 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

The key outstanding areas are:

- PPE Valuations testing;
- Completion of Value for Money work, including consideration of an issue raised from a member of the public
- Final review of completed audit work by manager and Associate Partner.
- Closing procedures; including checking any adjustments, the consistency of the 'other information' to the final accounts, and subsequent events review.

Auditor responsibilities under the new Code of Audit Practice 2020

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

The specified reporting criteria are:

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

Executive Summary

Status of the audit - Value for Money

Our work on the Value for Money commentary to be included in the Auditors Annual Report is still to be concluded. However, at this stage we can confirm we have not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

Recognising the pressures in the local audit system, the NAO's guidance for 2020/21 allows the Auditors Annual Report to be issued 3 months after giving the opinion on the financial statements. Our current aspiration is not to use the full extended time period for our report in respect of the Council. We will update you should this change for any reason.

Audit differences

At the time of this report we note one unadjusted audit difference relating to the gross pension asset arising from differences in the estimated value compared with the final audited values of the pension fund. Details of which can be found in Section 4 Audit Differences.

Other reporting issues

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

We are still to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as the instructions are yet to be issued. We expect that the Council will remain below the de-minimis for full procedures, which in the prior year was set at £500m. Therefore, we anticipated having no issues to report. However, we will not be able to issue the audit certificate at the same time as the audit opinion, as we cannot certify the completion of the audit until this work is completed.

We have no other matters to report.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Arun District Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Fraud risk – Misstatements due to fraud or error:

- Work in this area is complete subject to final review – no matters to report.

Fraud Risk: Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

- Work in this area is complete – no matters to report.

Other Area of Audit Focus: Valuation of Land and Buildings

- Work in this area is ongoing with liaison with the expert valuer – currently no matters to report.

Other Area of Audit Focus: Pension Liability Valuation

- We have identified a difference of £662k between the estimated gross asset value compared to our estimate from the audited values at the pension fund

Other Area of Audit Focus: Accounting for Covid-19 related grant income

- Work in this area complete subject to final review – no matters to report.

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Council or Management.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are no matters we wish to report.

Independence

Please refer to Section 8 for our update on Independence. There are no significant matters to draw to your attention.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

We identify and respond to this fraud risk on every audit engagement.

Significant Risk

What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified Significant risk - Inappropriate capitalisation of revenue expenditure

What did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding the oversight given by those charged with governance of management's processes over fraud.
- We have considered the effectiveness of management's controls designed to address the risk of fraud.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

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

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

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.

Significant risk

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

What is the risk?

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

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

Capitalized revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, other sources such as capital receipts or grants could be inappropriately used to finance the expenditure.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, incorrectly removing the spend from the general fund through applying statutory overrides.

Significant Risk

What did we do?

Our approach focused on the following:

► We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise as per IAS 16 through agreement to evidence such as invoices and capital expenditure authorisations.

► We selected a sample of REFCUS items to test to confirm the appropriateness of the classification of these items

► When performing journals testing, we analysed entries that would be classed as high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised or reclassified as REFCUS.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We tested a sample of PPE additions and confirmed they met the capitalisation requirements under IAS16

We tested a sample of REFCUS items and confirmed they were appropriately classified

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

We did not identify any other transactions through our test of journals or our other audit procedures, impacting these balances.

Other areas of audit focus

Valuation of land and buildings

What is the risk?

Land and buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that land and buildings may be under or overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.

The risk is heightened for assets that may have been impacted by the Covid-19 pandemic, such as traditional retail assets, commercial property or other sectors impacted by the lockdown restrictions and their impact on the economy.

Significant Risk

What judgements did we focus on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's expert – Wilks Head & Eve, including key assumptions of:
  - Yields
  - Future forecast income
  - Asset condition
- Ensuring the information supplied to the valuer in relation to Arun District Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Wilks Head & Eve.

Other areas of audit focus

What did we do?

We have:

- Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- Considered any specific changes to assets that should have been communicated to the valuer;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements

What are our conclusions?

Our work in this area is ongoing. We are currently liaising with your expert valuer WHE in regards to their valuation methodology for DRC assets which has been amended for 20-21.

Based on preliminary results, we consider valuations to be materially correct.

The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued.

We consider the useful economic lives of the assets to be reasonable and all accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

Pension Liability Valuation

What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 requires the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council’s current pension fund asset is a material and sensitive item and the Code requires that this be disclosed on the Council’s balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council’s expert – Hymans Robertson.
- Ensuring the information supplied to the actuary in relation to Arun District Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hymans Robertson.

What did we do?

- Liaised with the auditors of the administering authority (West Sussex County Council), to obtain assurances over the information supplied to the actuary in relation to Arun DC.
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council’s financial statements in relation to IAS19.
- In accordance with the new ISA540 (revised) standard, we tested the actuarial model to confirm it is appropriately designed, consistently applied and mathematically accurate. We involved our EY Pensions specialists to perform this work.

What are our conclusions?

Our testing subject to final review has identified no material misstatements. We have identified a non-material difference on the gross pension asset, arising from differences between the actuaries values and amount estimated from the Council’s share of the final audited pension fund assets. The difference is £662k, which we have not requested management to adjust.

We have concluded that we could rely on the work of the Pension Fund actuary, and assess their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council’s financial statements.

We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions.

We have confirmed the values and entries from the actuarial report have been correctly reflected in the Council’s financial statements.

The results of the EY pensions specialist has confirmed the actuarial estimate of the gross pension liability to be accurate within a reasonable range.

Other areas of audit focus

Accounting for Covid-19 related government grants

What is the risk?

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

The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

What judgements are we focused on?

We considered the Council's judgement on material grants received in relation to whether it is acting as:

- Agent, where it has determined that it is acting as an intermediary; or
- Principal, where the Council has determined that it is acting on its own behalf.

What did we do?

On a sample of the grant and funding population we performed the following:

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

What are our conclusions?

Our work in this area is ongoing in this area, particularly for grants which the Council have assessed to be acting as agent rather than principal We have requested the Council amend 2 grants to be classed as principal rather than agent. They have agreed to make this amendment, which adds £2.3m to both Income and expenditure in the accounts.

For Covid-19 grant income recognised in the Council's accounts where they have assessed to be acting as principal, we agree with the assessment made and the subsequent disclosure in the accounts.

03 Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of Arun District Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 40, and the Expenditure and Funding Analysis,
- Housing Revenue Accounts Income and Expenditure Statement, Movement on the HRA Statement, Housing Revenue Account Property, Plant and Equipment, the Housing Revenue Account Intangible Assets, the Housing Revenue Account Assets Held for Sale, the Notes to the Housing Revenue Account, and
- Collection Fund and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Arun District Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the Financial Report, other than the financial statements and our auditor's report thereon. The Group Head of Corporate Support is responsible for the other information contained within the Annual Statement of Accounts for the year 2020/21

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

Draft audit report

Our opinion on the financial statements

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

We have nothing to report in this regard

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.
- We are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year 31 March 2021.

We have nothing to report in these respects

Responsibility of the Group Head of Corporate Support

As explained more fully in the Statement of Responsibilities set out on page 19, the Group Head of Corporate Support is responsible for the preparation of the Annual Statement of Accounts for the year 2020/21, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

Draft audit report

Our opinion on the financial statements

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

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

- Local Government Act 1972,
- Local Government and Housing Act 1989 (England and Wales),
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948) ,
- The Local Audit and Accountability Act 2014,
- The Accounts and Audit Regulations 2015,

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

We understood how Arun District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit, those charged with governance and the monitoring officer and obtaining and reviewing documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our review of the Council's committee minutes, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance (through improper recognition of revenue), inappropriate capitalisation of revenue expenditure, and management override of controls and to be our fraud risks.

To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue, we reviewed the Council's manual year end income accruals, challenging assumptions and corroborating the income to appropriate evidence.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine. We also tested a sample of REFCUS items to confirm they were appropriately classified.

Draft audit report

Our opinion on the financial statements

To address our fraud risk of management override of controls, in common with all audits under ISAs (UK), we perform specific procedures to respond to the risk. We tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

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

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

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

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

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

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

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

Use of our report

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

04 Audit Differences

Audit Differences

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

Summary of adjusted and unadjusted differences

There is one adjusted item to be recorded at this time, as summarised on page 16:

Covid-19 grant income and expenditure to be classed as principal rather than agent, adjusted as follows:
- Expenditure £2.3m
- Grants credited to cost of services (£2.3m)

We report to you any uncorrected misstatements greater than our nominal value of £98k.
There is one uncorrected misstatement to bring to your attention at the time of writing this report, which is the difference for the gross pension asset summarised on page 15 of £0.662m.

As the difference is not above our materiality level, we conclude that the balance is materially fairly stated and do not anticipate modifying our audit opinion in respect of these matters.

As the audit work is still in progress, further issues may yet arise.

05 Value for Money

Value for money

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

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

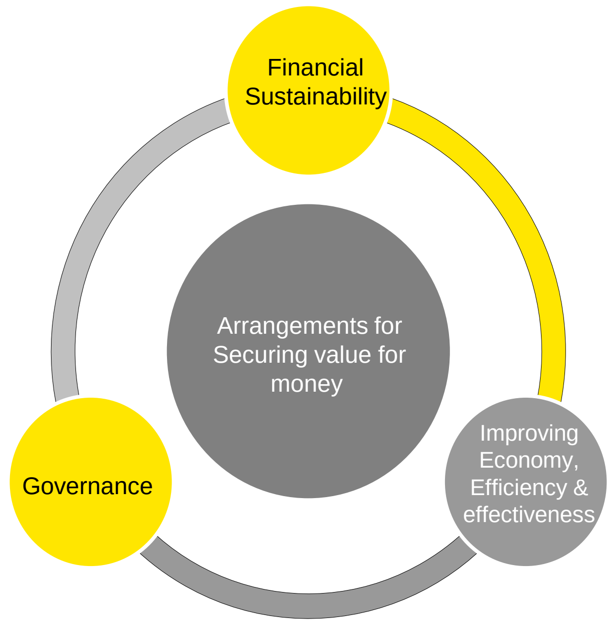
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its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

Risk assessment and Status of our VFM work

We have previously reported to the Council that our assessment of the risk of significant weaknesses in the Council's VFM arrangements remains ongoing, but at this stage we have not identified any risks.

At the date of this report we have considered whether the outstanding VFM procedures have an impact on our audit opinion on the financial statements and determined that they do not. We expect to complete our VFM procedures by the time of signing of the opinion.

We will also issue our VFM commentary in the Auditor's Annual Report.



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements

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

Financial information in the Narrative Statement and published with the financial statements was consistent with the audited financial statements

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

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. We are unable to complete the WGA procedures as the NAO has yet to issued the group instruction as HM Treasury have yet to issue the guidance to Local Authorities.

Other powers and duties

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

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

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Arun District Council’s financial reporting process. We have no other matters to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

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

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

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

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention

08 Independence

Independence

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

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

As at the date of this report, we have provided services as a reporting accountant for the Department of Work and Pensions Housing Benefit Assurance Process (HBAP) in respect of the subsidy claim to 31 March 2021.

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

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

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2021.

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

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee	43,969	43,969	43,969
Scale Fee Rebasing		14,670	
Revised Proposed Scale Fee	**43,379**	**58,049**	**43,379**
Scale Fee Variation (1, 2)	TBC	TBC	14.456
Total Audit Fee	**TBC**	**TBC**	**61,350**
Non-audit Fees – HBAP	**TBC**		**24,829**

1. The PSAA has determined the final scale fee variation from 2019/20 to be as shown. This is a combination of our scale fee rebasing and scale fee variation submission and represents 45% of our original submission.
2. The PSAA published guidance for 2020/21 scale fee variations in August 2021 which we have shared with management. This notes the additional audit requirements in 2020/21 onwards for VfM and estimates and the impact this is expected to have on fees. As work is still ongoing at this time, we are unable to quantify a final fee but can confirm it will take into account the PSAA guidance, which indicates a minimum for these two areas of £8,500.

Other communications

EY Transparency Report 2021
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021: EY UK Transparency Report 2021 | EY UK

09 Appendices

Appendix A

Required communications with the Audit & Governance Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit & Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – July 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report – July 2021
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – February 2022

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty related to going concern ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The appropriateness of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Arun District Council's ability to continue for the 12 months from the date of our report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit Results Report – February 2022
Subsequent events	▸ Enquiry of the Audit & Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report – February 2022
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit & Governance Committee responsibility.	Audit Results Report – February 2022

Appendix A

Required communications	What is reported?	Our Reporting to you — When and where
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – February 2022
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Results Report – February 2022
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the Audit & Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

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Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Significant deficiencies in internal controls identified during the audit	▶ Significant deficiencies in internal controls identified during the audit.	We have not identified any significant deficiencies in internal controls
Written representations we are requesting from management and/or those charged with governance	▶ Written representations we are requesting from management and/or those charged with governance	Audit results report – February 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – February 2022
Auditors report	▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report	Audit results report – February 2022 No such circumstances identified

Draft Management Representation Letter

Management Rep Letter

Ernst & Young LLP

Grosvenor House
Grosvenor Square
Southampton
Hampshire
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of Arun District Council ("the Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Arun District Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Management representation letter

Management Rep Letter

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
   - involving financial statements;
   - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
   - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Authority's activities, its ability to continue to operate, or to avoid material penalties;
   - involving management, or employees who have significant roles in internal controls, or others; or
   - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Full Council, Service Committees and Audit & Governance Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: February 2022.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter (30 November 2020) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security

Management representation letter

Management Rep Letter

consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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

E. Going Concern

1. Note 40 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

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

G. Other information

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

H. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the IAS19 pension liability and disclosure, property, and plant and equipment valuations, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

1. We confirm that the significant judgments made in making the estimates for pension liabilities and the valuations of property, plant and equipment, have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.
3. We confirm that the significant assumptions used in making the *estimates* appropriately reflect our intent and ability to carry out any relevant specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Management representation letter

Management Rep Letter

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

K. Retirement benefits

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

Yours faithfully,

____

(s151 Officer)

____

(Chairman of the Audit & Governance Committee)

Appendix C

Implementation of IFRS 16 Leases

In previous reports to the Council, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2022. However, officers should be acting now to assess the authority's leasing positions and secure the required information to ensure the Council will be fully compliance with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	Management should: ▸ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▸ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▸ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The Authority needs to agree on certain policy choices. In particular: ▸ Whether to adopt a portfolio approach ▸ What low value threshold to set and agree with auditors ▸ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▸ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the Council is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

EY | Assurance | Tax | Transactions | Advisory

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE COMMITTEE ON 22 FEBRUARY 2022

SUBJECT: Annual Statement of Accounts 2020/21 and Letter of Representation

REPORT AUTHOR: Carolin Martlew, Interim Group Head of Corporate Support and S151 Officer
DATE: February 2022
EXTN: 01903 737568
AREA: Corporate Support

EXECUTIVE SUMMARY:

This report provides information about the audit of the Council's 2020/21 Statement of Accounts (accounts) and recommends the approval of the 2020/21 accounts and the Letter of Representation on behalf of the Council.

RECOMMENDATIONS:

The Committee is requested to:

i. Note the findings of the EY Audit Results Report (previous item on the agenda);

ii. Approve the Letter of Representation on behalf of the Council in Appendix 1; and

iii. Approve the Statement of Accounts for the financial year ended 31 March 2021 (Appendix 2).

1. BACKGROUND:

The Council's external auditors EY provided the Committee an audit progress update report at its meeting on 29 July 2021, which explained that due to a backlog of work, predominantly as a result of Covid-19 impacting 2019/20 audits, they had not been able to schedule an efficient high quality audit to meet the 30 September date noted in the Accounts and Audit (Amendment) Regulations 2021. The Council was informed that the year-end execution work would take place in November 2021.

The Accounts were submitted to the External Auditors on 23 July 2021, within the statutory deadline for 2020/21. The audit commenced in late November 2021 and continued in to 2022. The audit is now complete apart from matters referred to in the Audit Results Report.

This report was preceded by the Audit Results Report issued by EY.

The audited accounts, together with the auditor's opinion, are required to be published by the Council.

The Statement of Accounts for 2020/21 for approval by the committee are contained in appendix 2 to this report.

2. PROPOSAL(S):

Overview of the Financial Statements

The Statement of Accounts summarises the Council's financial transactions for 2020/21 and its financial position at 31 March 2021. It 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

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.

The Supplementary Financial Statements are comprised of the:

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

Audit of the Statement of Accounts 2020/21

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

Members are requested to approve the Letter of Representation at Appendix 1. The Audit Results Report identified the following misstatement,

- Incorrect treatment of COVID19 funding received by the Council of £2.3m. This was treated as the Council was acting on an agency basis. The Auditors have requested it be treated as the Council acting as principal. The main effect of changing this is income and expenditure increase by £2.3m in the Council's financial records. There is no impact on the out turn for the financial year.

The Audit Results Report identified the following misstatement, which the Council has chosen not to correct, as the amount is not material. (i.e. the amount is unlikely to influence the decisions or assessments of users taken on the basis of the financial statements) and the cost would therefore outweigh any benefit.

- a non-material difference on the gross pension asset, arising from differences between the actuaries values and amount estimated from the Council's share of the final audited pension fund assets. The difference is £662k, which has not been adjusted.

The Statement of Accounts for the financial year ended 31 March 2021 has been prepared in compliance with the required standards and statutes and should be approved by this Committee.		
3. OPTIONS: N/A		
4. CONSULTATION:		
Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**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:

Financial

The preparation and publication of accurate Accounting Statements enhances financial management in the Council.

Legal

The Letter of Representation and the Statement of Accounts 2020/21 are required to be approved by Members. This Council has delegated that function to the Audit and Governance Committee.

7. REASON FOR THE DECISION:

To approve the Council's Statement of Accounts for 2020/21.

8. BACKGROUND PAPERS:

Code of Practice on Local Authority Accounting in the United Kingdom 2020/21;

Audit Progress Report 29 July 2021: (Public Pack)Agenda Document for Audit & Governance Committee, 29/07/2021 18:00 (arun.gov.uk).

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Arun District Council
Civic Centre
Maltravers Road
LITTLEHAMPTON
BN17 5LF

Tel: 01903 737500
DX 57406 LITTLEHAMPTON
email: carolin.martlew@arun.gov.uk
www.arun.gov.uk

Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
Hampshire
SO15 2BE

11 February 2022

Please ask for:
Carolin Martlew
Interim Group Head of Corporate Support
Direct Line: 01903 737568

Our Ref: CM/sjq

Dear Sir

This letter of representations is provided in connection with your audit of the financial statements of Arun District Council ("the Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Arun District Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code

of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because the amount is not material. (i.e., the amount is unlikely to influence the decisions or assessments of users taken on the basis of the financial statements) and the cost would therefore outweigh any benefit.

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

    - involving financial statements;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
    - involving management, or employees who have significant roles in internal controls, or others; or

- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

   - Additional information that you have requested from us for the purpose of the audit; and

   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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

3. We have made available to you all minutes of the meetings of the Full Council, Service Committees and Audit & Governance Committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *February 2022*

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter (19 November 2020) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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

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

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

E. Going Concern

1. Note 40 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

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

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement. .

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the *IAS19 pension liability and disclosure, property, plant and equipment valuations, investment property valuations* and *NDR appeals provision,* and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

1. We confirm that the significant judgments made in making the estimates for pension liabilities, the valuations of property, plant and equipment, investment properties and NDR appeals provision have taken into account all relevant information of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.

3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out any relevant specific courses of action on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

K. Retirement benefits

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

Yours faithfully,

____

(s151 Officer)

____

(Chairman of the Audit & Governance Committee)

Arun District Council

Arun District Council

Annual Statement of Accounts for the year 2020/21

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

Contents

Narrative Report

Introduction to the Arun district

Arun District is the largest district in West Sussex in terms of population (161,123 mid-year 2020) and the third largest in terms of Council Tax Base (62,244 equivalent Band D properties). It includes the towns of Arundel, Bognor Regis and Littlehampton together with 27 surrounding parishes.

There are 54 councillors representing 23 wards within the District. The councillors are elected on a 4 year term. The most recent elections were held in May 2019.

Arun has one of the UK's highest populations of elderly people, with 29% of residents aged 65 and over, compared to 18% nationally. Particularly high proportions of elderly people are living along the coast, in the Pagham and 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.

Wage stagnation since the 2008/9 economic downturn has left many struggling to cope across the country and even though wages have recently started to outstrip inflation, they are still not back to their pre-2008 levels in real terms. This may improve if skills shortages predicted to follow the UK's departure from the EU materialise. However, those areas like Arun which are dependent on a high degree of low wage low skills employment remain likely to see deprivation continue.

Arun was ranked 149th on the Index of Multiple Deprivation in 2019 (the last published figures) out of 317 local authorities. The rankings for the Multiple Deprivation Measures are:

Measure	Rank
Income	156
Employment	134
Education	89
Health	110
Crime	192
Barriers to Housing and Services	66
Living Environment	239
Income Deprivation affecting Children	159
Income Deprivation affecting Older People	188

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 comprised of eight Councillors (May 2020), seven representing the Liberal Democrat party and one Independent. 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. 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.

Change to Governance Arrangements from May 2021

The Council resolved at its Full Council meeting on 15 January 2020 to make a change in governance arrangements, with effect from the Annual Council Meeting on 19 May 2021.

As a result of the resolution, it will be necessary for significant changes to be made to the Council's Constitution. The main feature of the change is to remove the 'Leader and Cabinet' form of governance that the Council has operated since 2001 and replace it with a 'Committee System' form of governance. The new form of governance will result in most decisions on Council functions being dealt with by politically balanced Committees, subject to the general oversight of the Council. No individual member of the Council will have decision making powers.

The Annual Governance Statement

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

The Covid-19 pandemic and the Council

The Corona virus pandemic is the first peacetime national emergency that the Council has had to face since its inception. The outbreak of the Corona virus was identified in Wuhan, China in December 2019 and recognised as a pandemic by the World Health Organisation on 11 March 2020. The speed of the pandemic led to unprecedented socioeconomic disruption globally. The UK went into its first lock down on 23 March 2020.

Officers had to take a number of urgent decisions to incur expenditure or take urgent action. These were reported to cabinet retrospectively as appropriate. The financial effect of the pandemic and lock down started to be felt in March 2020 and this continued during 2020/21. The financial effects are covered more fully in the relevant sections below and in Note 40 – Going Concern.

The main actions taken by the Council during 2020/21 in combating the pandemic were:

- An Emergency Management Team was formed which met weekly to consider all issues in relation to the Council's response to the pandemic. One particular review area was capacity as a result of work pressures and staff absences. Staff were under increased pressure as existing workloads had to be dealt with alongside responding to the pandemic;
- In line with government guidance, staff were instructed to work from home, except those who were required to be in the office to perform their duties. If staff were in office premises they were encouraged to take lateral flow tests to improve their own safety and that of colleagues. No Elected Members or staff were permitted to enter buildings unless authorised by Management or Group Service Heads;
- Arun District Council worked with East Hampshire District Council providing COVID Marshalls patrolling known hot spot areas. Arun's Environmental Health team patrolled supermarkets, garden centres, click and collect premises and sites where complaints were received or positive cases confirmed. The two Councils have liaised closely so appropriate actions were promptly taken;
- The Council implemented government guidance on all matters including grants and enforcement;
- The Council worked closely with West Sussex County Council providing support to vulnerable members of the community. It also worked with other partners to protect rough sleepers and other homeless individuals in its area;
- Officers ensured any elections, particularly those due in May 2021 were conducted in a safe and COVID secure way;
- All Member meetings have been held virtually during 2020/21, ensuring the safety of Members, Officers and any public wishing to attend;
- The Council has continued to offer its services throughout 2020/21. Some notable achievements were:

391 households were offered accommodation and services maintained
12,912 households were paid £823k from the Hardship Fund
Small Business Grant Funding of £39.7m was paid to 3,702 businesses in the District
Discretionary Grant Funding of £3.073m was awarded to 479 businesses in the District
70 virtual meetings and briefings were held
2,255 postings were placed on social media
Collection of 28,499 tonnes of refuse, 345 tonnes of litter and 13,177 tonnes of recycling
149,554 telephone calls and 2,349 webchat interactions handled

Workforce

The Council employs approximately 375 staff in full-time and part-time positions. Arun's workforce has undergone a planned reduction to make it smaller and more effective as part of its 2020: Vision Programme. The Council employed 406 posts at the start of the Vision programme in 2014/15.

The Strategic Direction of the Council

The Council's 2020 Vision programme was 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 priority continues to be to provide value for money to enable it to continue to provide important services to the community and others in the District. The Council has made significant efficiencies over the years by retendering major contracts. These include:

- Leisure Management
- Waste Management
- Grounds maintenance

The Council's Performance

The Council's strategic performance indicators are set in the Corporate Plan. The Council's three priority areas are:

- Your Council Services;
- Supporting you; and
- Your future.

Cabinet was updated on performance twice a year. The full outturn report of the Council's performance was considered at Corporate Policy and Performance Committee under the revised reporting arrangements on 17 June 2021.

The Council takes performance very seriously and has formulated a number of stretch targets which are monitored closely. It is accepted that comprehensive performance indicators form the basis of a management system and we have consulted widely to ensure that our indicators encompass the fundamental services of the Council.

- Council Tax Collection was 97.1% (97.5% previous year) compared to the target of 98%. The team have worked hard to minimise the impact of Covid. The collection rate was affected by court action being suspended, other than in November, as a result of the courts being closed as a result of Covid. This, along with cases not being escalated to Enforcement Agents has impacted our ability to collect outstanding debt due for 2020/21.
- Housing Benefit/ Council Tax Support – the time taken to process new claims was 2.6 days (2.3 days previous year) compared to a target of 8 days.
- Household waste sent for reuse, recycling and composting was 44.77% (43.04% previous year) compared to the target of 50%.

The Local Plan

The Arun Local Plan 2011-31 was adopted on 18 July 2018. It sets out a spatial vision, objectives and a sustainable strategy for delivering the required growth for the District over the period 2011-2031. The Local Plan intends to provide an average of 1,000 homes per annum between 2011 and 2031 (total 20,000 homes). 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.

Arun' s Local Plan strategic objective for housing delivery is to:

> "Plan and Deliver a range of housing mix types in locations with good access to employment, services and facilities to meet the District's housing requirements and the needs of Arun's residents and communities both urban and rural, ensuring that issues of affordability and the provision of appropriate levels of affordable housing are addressed while supporting the creation of integrated communities"
>
> "Promote strong, well integrated and cohesive communities, through the promotion of healthy lifestyles, provision of good quality accessible community facilities and a safe environment, which delivers an enhanced quality of life to all. This includes the needs of a growing elderly population."

Financial Performance

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. These have been exacerbated by the Coronavirus pandemic.

The future of the Council's government funding remains extremely uncertain. The Fair Funding Review went out to consultation during 2018/19. It focused on the cost drivers, which are mainly population based for District councils like Arun and is designed, in theory, to redistribute funding to those areas of highest need. It is widely anticipated that the new system will be detrimental to District Councils, with a shift between the tiers of local government in two tier areas like West Sussex. There is also the potential of transferring extra responsibility (and cost) to Local Government. The outcome of the Government Spending Review SR19 covering the period 2020/21 to 2022/23 had been delayed to 2020 and has been further delayed due to the Covid-19 pandemic to 2022/23.

The 2015 Spending Review announced a number of significant changes in future Local Government funding. One of the most significant proposals was the 100% business rate retention by 2020. This had been reduced to a local share of 75%, with no agreement of how the split will be determined between District and County council in two tier areas. The timing of the reset of the retained business rates baseline proposed for 2021/22 remains unclear and similar to the Fair Funding Review has been delayed further. When introduced, 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 has set up a Funding Resilience Reserve to enable a planned transition when funding sources mentioned above result in a significant loss of income. With the favourable outturn for 2020/21, which included a review of unrequired earmarked reserves, an additional contribution of £0.833m was made to the reserve (closing balance 31 March 2021 £6.659m).

The UK left the European Union on 31 January 2020 and the EU and UK negotiated their future relationship during the transition period which ended on 31 December 2020. The longer term financial impact of Brexit was creating uncertainty over interest rates, the rate of inflation, the labour market, property and rental values. However, this has been overshadowed by the global pandemic and the future financial impacts remain largely uncertain. The Government Spending Review (SR19) mentioned above has been delayed due to the Corona virus pandemic.

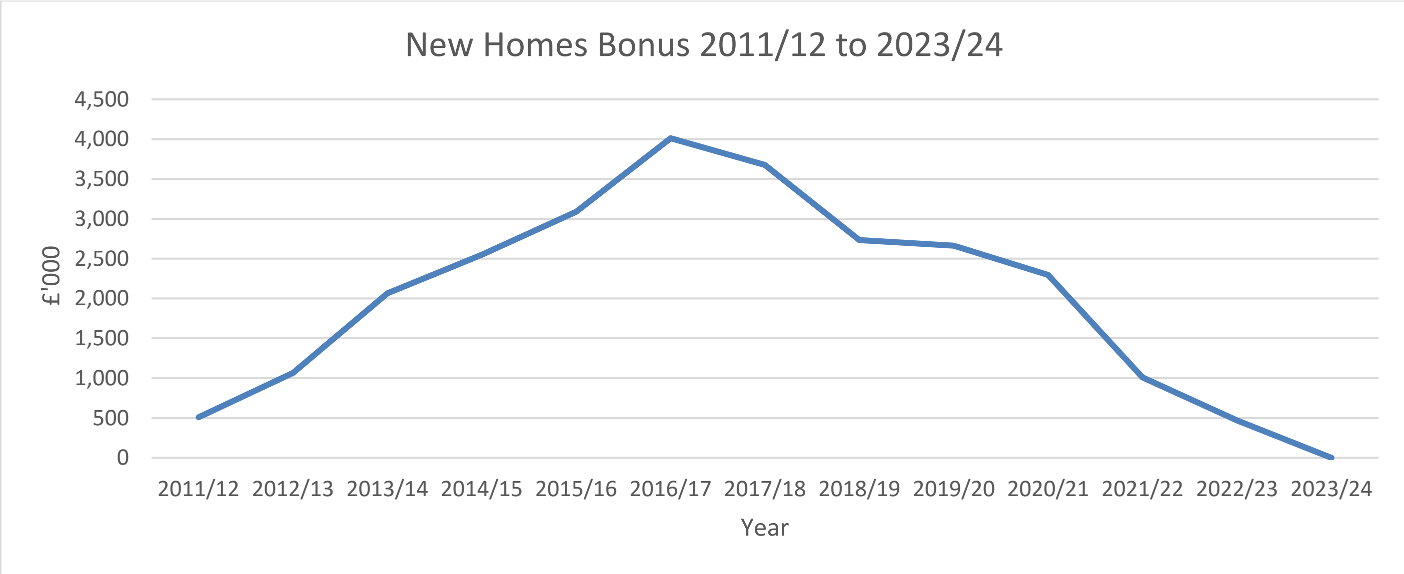
The Council's General Fund expenditure is supported by Government through the Business Rate Retention scheme, non-ringfenced grants and the New Homes Bonus (NHB). There has been a continual sharp decline in the level of general Central Government support and the Council is no longer in receipt of Revenue Support Grant (RSG). The council has benefited from the New Homes Bonus and the Business Rate Retention scheme due to growth in both the domestic and commercial sectors.

The Council received no RSG, which is a general government support and not linked to the local economy, in 2019/20 and 2020/21. The Council received £194k RSG in 2018/19 (£750k in 2017/18). The Council was in receipt of £3.870m RSG in 2014/15, the year preceding the previous Spending Review (SR15). Future funding allocations will be determined by the Fair Funding Review.

The Council received £2.295m in New Homes Bonus in 2020/21 (£2.664m previous year) and this will further decrease to £1.040m for 2021/22. There was a stepped reduction in the grant from 6 years to 4 years from 2018/19. The level of NHB is summarised in the table below:

NHB Payment relating to:	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
2011/12	509	509	509	509	509	509	0	0	0	0	0
2012/13		556	556	556	556	556	0	0	0	0	0
2013/14			1,000	1,000	1,000	1,000	1,000	0	0	0	0
2014/15				484	484	484	484	0	0	0	0
2015/16					539	539	539	539	0	0	0
2016/17						926	926	926	926	0	0
2017/18							728	728	728	728	0
2018/19								540	540	540	540
2019/20									470	470	470
2020/21										557	0
2021/22											30
Total	**509**	**1,065**	**2,065**	**2,549**	**3,088**	**4,014**	**3,677**	**2,733**	**2,664**	**2,295**	**1,040**

2020/21 was a rollforward year due to the delay in the spending review. This resulted in an additional one off allocation of £557k NHB for that year (total £2.295m). The Council will only receive the legacy payment from earlier years from 2021/22 and it is anticipated that the Council will not be in receipt of NHB by 2023/24. The Council has had significant benefits from the New Homes Bonus which are summarised below:



Council Tax Income

Arun's Council Tax income excluding Parish Councils is summarised in the table below:

Actual 2018/19	Arun excluding Parish Councils	Actual 2019/20	Budget 2020/21
60,402	Tax base	61,281	62,244
£176.40	Band D Tax	£181.62	£186.57
£10,655,000	Council Tax Income (excluding parishes)	£11,130,000	£11,613,000

The Council Tax for 2020/21 is based on an Arun Band D of £186.57, which represents an increase of £4.95 or 2.725% (£181.62 for 2019/20). This has started to redress the reduction, in real terms, of the Council Tax Income Base which was frozen for 5 years. Arun's tax base increased significantly in 2019/20 from 60,402 to 61,281 (879), with a further increase of 963 for 2020/21 to 62,244. The increase is mainly due to the completion of new dwellings in the District.

Government policy in relation to the calculation of the Council's spending power is broadly based on a £5 annual increase in Band D Council Tax. The Councils Medium Term Financial Plan assumes a 3% or £5 annual increases in the Council tax over the next 5 years in order to become more financially resilient whilst remaining a low Council Tax Authority.

The income from fees and charges (principally from Property and Estates, Planning and car parking) has increased to around £5m (£4.6m previous year). The increase is welcome given the Government restrictions imposed on the public for most of 2020/21.

As referred to above the low interest environment has persisted. However, proactive investment of cash balances has generated £0.627m in interest in 2020/21 (£0.850m previous year).

The Council has a General Fund revenue balance of £7.076m (£7.076m previous year), 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 covid-19 pandemic and the volatility in the council's funding mean that the maintenance of a reasonably high level of balances is essential. As noted earlier, a Funding Resilience Reserve has been set aside to offset future volatility of funding.

West Sussex Business Rate Retention Pilot

West Sussex was successful in its application to become a 75% Business Rate Retention Pilot for 2019/20. The West Sussex Business Rate Retention Pilot was led by WSCC with all Districts and the County as members. The pilot allowed 75% of Business Rates to be retained locally with 20% retained by the Districts and 55% by the County. Previously, half of the rates revenue was retained locally with the local share being split between Arun (80%) and West Sussex County Council (20%). Although the percentage shares have changed the new pilot was set up with the condition of no detriment to any of its members. This meant the pool reimbursing the District Council for loss of any grant. It should be noted that the overall no detriment clause was removed by the Ministry of Housing, Communities and Local Government (MHCLG). The pool has in excess of £2m set aside to mitigate this possibility. The government announced that business rate pilot pools established for 2019/20 would not be allowed to continue and the West Sussex pilot business rate pool ceased on 31 March 2020.

The bid for a new business rate retention pool reverting back to the original 50% retention scheme consisting of West Sussex County Council, Adur District Council, Arun District Council and Horsham District Council was successful for 2020/21. The additional funding generated, as agreed by all the West Sussex Leaders, will be invested in superfast broadband, which is to the benefit of the whole of West Sussex.

Net Assets

The Council maintains a strong balance sheet despite financial challenges, net assets were £307.193m at 31 March 2021 (£285.049m at 31 March 2020).

Non-Current Assets (Property & Investments) £322.655m	Net Assets 31 March 2021 £307.193m
Net Current Assets (Debtors, Creditors & Cash) £30.392m	
Long Term Liabilities (Pensions, Borrowing & Provisions) £45.854m	
Funded by: Usable Reserves £47.222m	
Funded by: Unusable Reserves £259.971m	

Non-Current Assets (Property & Investments) £305.671m	Net Assets 31 March 2020 £285.049m
Net Current Assets (Debtors, Creditors & Cash) £36.296m	
Long Term Liabilities (Pensions, Borrowing & Provisions) £56.918m	
Funded by: Usable Reserves £34.606m	
Funded by: Unusable Reserves £250.443m	

Financial Management

The 2020/21 budget was considered by the Overview Select Committee on 28 January 2020 and cabinet on 10 February 2020 before being formally approved by Full Council on 19 February 2020. The budget aligned with the Council's Medium Term Financial Strategy and Housing Revenue Account business plan. The provisional Local Government Finance settlement issued by the MHCLG in December 2019 was also a major 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 (pages 21 to 26) and the Expenditure and Funding Analysis (page 20). 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 2020/21 for the GF and HRA (please see page 16 for further details on HRA).

Reconciliation of the outturn position to the Financial Statements 2020-21

	GF	Earmarked	HRA	Combined
	£'000	£'000	£'000	£'000
Cost of Service as per Comprehensive Income & Expenditure Statement	**21,126**	**-**	**(13,931)**	**7,196**
Adjustments between accounting basis & funding under regulations				
Adjustment for Capital Purposes	716	-	12,945	13,660
Net Change for Pensions Adjustments	(1,284)	-	(91)	(1,375)
Other Changes	(265)	-	(15)	(280)
Total Adjustments (See Note 7)	**(834)**	**-**	**12,839**	**12,005**
Net Cost of Services in the Expenditure and Funding Analysis	**20,292**	**-**	**(1,091)**	**19,201**
Other Income and Expenditure (see Expenditure and Funding Analysis)	**(33,686)**	**-**	**1,842**	**(31,844)**
Transfer to / (from) Earmarked Reserve (See Note 10 - Net Transfers)	13,394	(13,394)	-	(0)
(Surplus) / Deficit for the year	**-**	**(13,394)**	**751**	**(12,643)**

The original budget for 2020/21 anticipated a reduction of £617k in the level of General Fund Reserve. The Council's governance arrangements required significant additional expenditure (that was not included in the original budget) to be approved by Full Council. During the year seven additional supplementary estimates totalling £1,053k were approved: Three to provide Covid-19 assistance for the Leisure Contract, £406k (15/07/2020), £192k (26/11/2020) and £178k (13/01/2021); Two for Planning Appeals £40k (16/09/2020) and £33k (17/03/2021); One for HMO Licensing work £20k (25/01/2021); and one for Sunken Gardens £184k (13/01/2021). These changes resulted in a total approved budgeted draw down from reserves of £1.670m. Regular strategic monitoring that was carried out during the year indicated an estimated General Fund outturn position of around £7m (actual £7.076m). Section 25 (1) of the Local Government Act 2003 requires the Chief Financial Officer to report on the "adequacy of the reserves and balances" when the Council sets its budget for the coming year. The report considered by Full Council on 19 February 2020 included the following statement:

Members are asked to note that as Group Head of Head of Corporate Support I am satisfied that the estimates as presented in this Budget are sufficiently robust and that the reserve balances proposed for 2020/21 are adequate. However, there is significant risk from 2022/23 for the General Fund when the Council's Funding Resilience reserve is expected to be depleted. In addition, the HRA Business Plan and future years budgets will need to be closely monitored to ensure that the stock acquisition programme and enhanced repairs and improvements programme remain affordable.

The outturn for 2020/21 of no change in the General Fund Reserve is a variation against original budget of £617k.

It is important to note that the outturn position is comprised of a significant number of smaller over and underspends income and some more significant items (over £200k) which are analysed below. A detailed analysis will be reported to Corporate Performance and Policy Committee on 1 September 2021:

Variation Analysis original budget to outturn 2020/21

	£'000
Expected Use of Reserves 2020/21	**617**
Favourable Variations	
Homelessness funding (Nightly paid accommodation)	(850)
Establishment	(494)
Over-achieved Income (fees and charges)	(206)
COVID-19 Support Grants	(2,944)
Use of Reserves not required in 2020/21	(617)
Other Variations Net	(267)
Total Favourable Variations	**(5,378)**
Adverse Variations	
Leisure Centres (management fees)	236
Council Tax Collection	204
Rent Rebates and Rent Allowance	352
Homelessness Expenditure (Nightly paid accommodation)	1,004
Under-achieved Income (fees and charges)	373
Business rate losses reserve	260
Transfer to Covid Contingency Reserve	538
Transfer to Funding Resilience Reserve	833
Transfer to Business Rates Reserves	961
Total Adverse Variations	**4,761**
Change in General Fund Balance 2020/21	**0**

When lockdown measures were introduced, Councils were instructed to minimise the number of people without accommodation. The gross extra spending incurred of £1.004m is shown above, which was partly offset by central government funding of £850k.

The Establishment favourable variation is largely due to an underspend in salaries during 2020/21, partly offset by the Corporate Vacancy allowance.

The Council experienced both over and under achievement of expected income from fees and charges during 2020/21. As these were in some cases, significant amounts, they are shown in total in the above analysis. Over-achieved income in 2020/21 was largely from Development Control (£175k); the remainder was derived from Building Control fees.

The £2.944m of COVID 19 support shown as a favourable variance represents that part of central government support not used to offset additional spending/lost income in 2020/21. The Council recognises that the effects of the pandemic will continue in 2021/22, and transferred £2.332m to earmarked reserves, shown in the adverse variations. This will allow the Council to reduce any financial issues arising from the pandemic in 2021/22.

The Council's leisure provider was severely affected by the pandemic with the centres forced to close by the government on three separate occasions. The Council was awarded £332k from the National Leisure Recovery Fund (£310k bid plus an additional £22k). The grant covers additional expenditure incurred for the period December 2020 to March 2021 and therefore, reduces the financial burden on the Council. The variation against budget relates to the management fee where we have only been able to recoup £572k through the government's income compensation scheme.

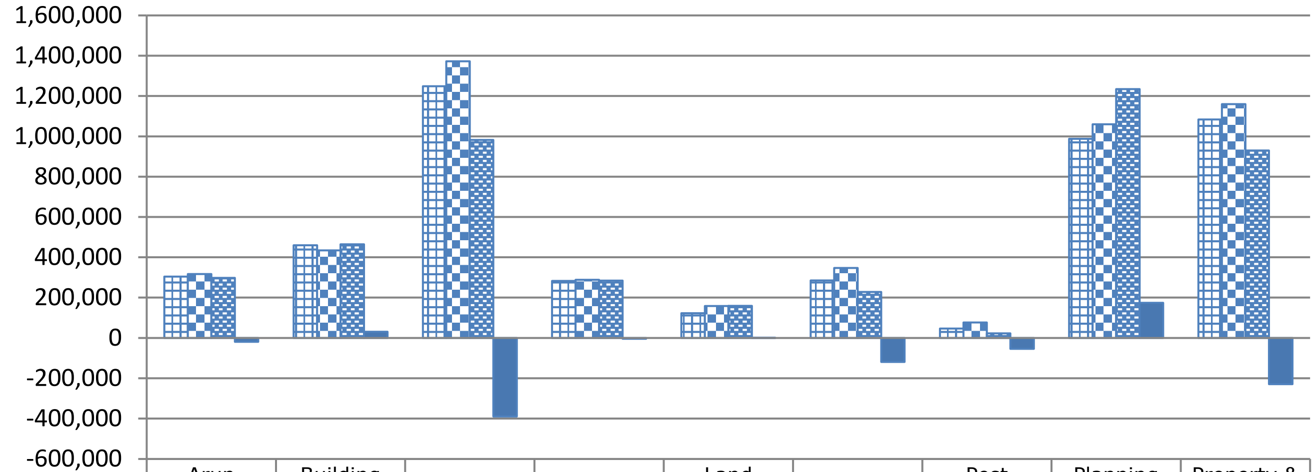
No recovery proceedings in court were undertaken during 2020/21 resulting in a loss of income of £204k. The adverse variation in Rent Rebates and Housing Benefit has arisen for a similar reason as no court proceedings were undertaken in respect of overpayments' recovery.

Areas of income under-achievement in 2020/21 are sundry property rentals (£230k), car parking income (£390k), licensing (£119k), pest control (£55k) and others (£23k). £444k of government support was used to reduce the loss to £373k.

As a result of ratepayer relief granted, £9.086m of income due to the Council was lost during 2020/21. Government grant of £8.826m was received which reduced the shortfall in the year to £260k.

The £23k remaining adverse variation is the sum of other favourable and adverse variations in the year which were less than £200k.

Income Variation Outturn 2020/21



	Arun Lifeline	Building Control	Car Parks	Cemeteries	Land Charges	Licensing	Pest Control	Planning Services	Property & Estates
19-20 Outturn	304,094	459,526	1,248,948	282,738	122,571	284,871	46,599	987,397	1,083,750
Current Budget	317,100	434,000	1,372,410	288,420	158,000	347,300	76,800	1,060,000	1,159,720
20-21 YTD	298,041	464,553	982,421	284,067	158,818	227,688	22,431	1,234,388	929,976
Variance	-19,059	30,553	-389,989	-4,353	818	-119,612	-54,369	174,388	-229,744

The Covid-19 pandemic

The impact of Coronavirus has had a significantly detrimental effect across the Council including businesses, taxpayers and other organisations. The Government has provided a range of support in the form of grants and relief. For the financial year 2020/21, the Council received a number of grants which included £56m support for businesses, £945k Council tax Hardship fund, £2.37m C-19 support grant, £931k service related and £1m Sales, fees and service support grant among others.

As mentioned earlier in the report, the Corona virus pandemic was the first peacetime national emergency that the Council has had to face since its inception. The conditions that the Council has faced are unprecedented and resulted in direct financial consequences in additional expenditure and loss of income.

The adverse effect on income and expenditure relates mainly to areas including car parks, leisure provision, property rentals and licensing. Car parking charges were suspended from 1 April 2020 and enforcement action was only applied to double yellow lines and loading bays. This was to help residents to park safely, support key workers and avoid road congestion during the Covid-19 situation. In addition, the Council paid its leisure management contractor for lost income and costs incurred to maintain premises during lock downs. Tenants were granted rent reductions and debt recovery was suspended. Where possible, these matters were partly offset by the government support received. The outturn for expenditure and income against budget is covered in more detail in the section Income Variation Outturn 2020/21 above.

In light of the Corona Virus pandemic a decision was made to increase the non-payment provisions for Council Tax and Business Rates. These provisions were reviewed during 2020/21 taking account of any significant variations between actual and anticipated collection rates.

The Council has acted as the government's agent paying More than £35m in various grants to 7,800 claimants during the year.

Due to the Covid-19 pandemic an additional note, Note 40 – Going Concern, is included in the Statement of Accounts which outlines the overall impact the pandemic is having on the Council.

Capital Spending and Finance

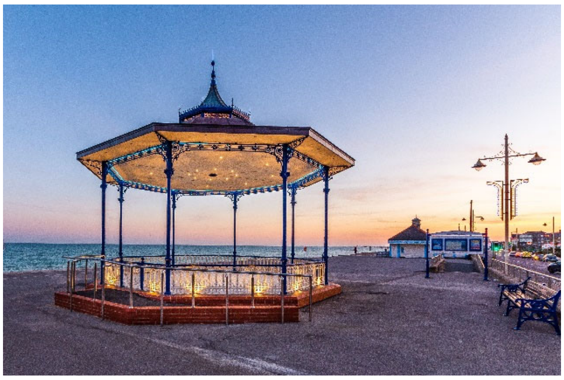
A budget of £17.6m for capital and special revenue projects was approved by the Council for 2020/21. In addition, £16.2m was carried forward from 2019/20 to complete approved projects. Actual expenditure for 2020/21 amounted to £9.4m (£7.7m in 2019/20) on capital schemes and £1.3m (£2.1m in 2019/20) 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.

A number of play areas were replaced in 2020/21 at a total capital cost of £154k, Worthing Road Littlehampton, Canada Road Arundel (£7.5k contribution from Arundel Town Council), Larksfield Middleton and Rose Green Aldwick (£5k contribution from Aldwick Parish Council).

Pictured top left is Worthing Road and top right Canada Road.

In 2018/19 Arun was awarded £50k from the coastal revival fund towards the revival of the seafront bandstand at Bognor Regis. In 2020/21 this work was completed at a total capital cost of £112k.



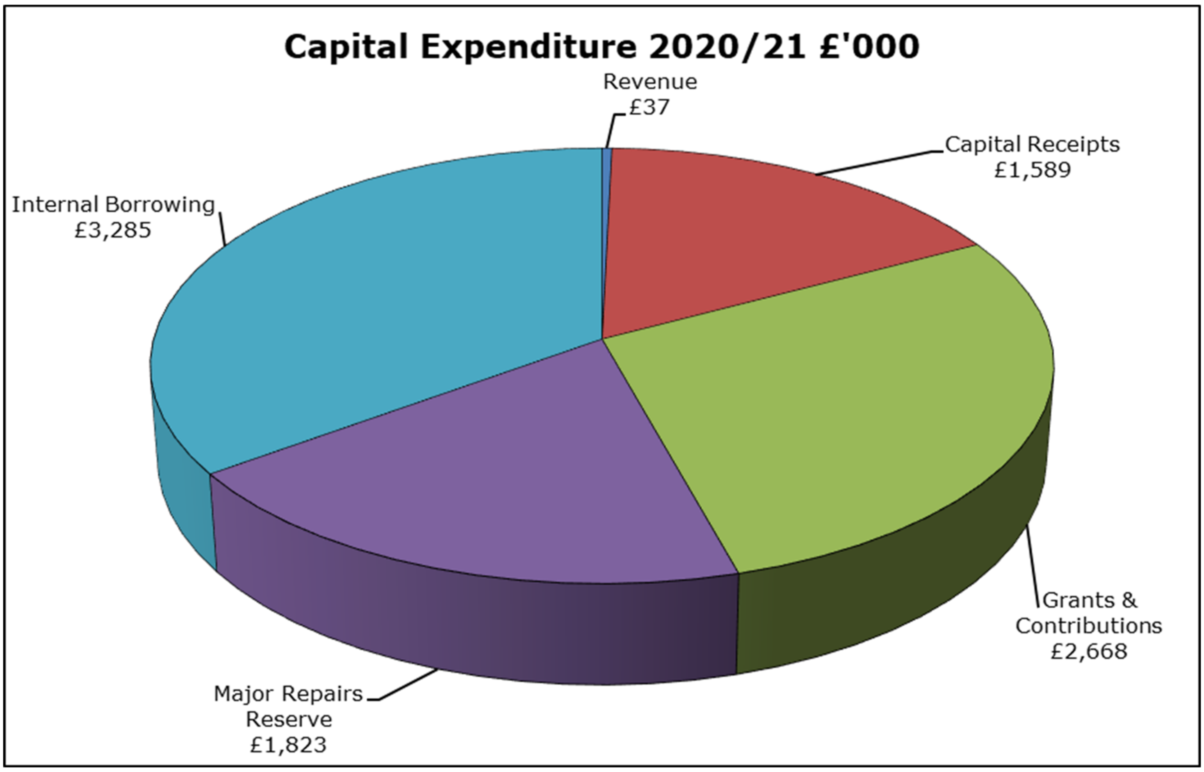
In 2019/20 the Council was awarded two grants, £2.49m from the Coastal Communities Fund and £564k from Coast to Capital LEP (Local Growth Fund) to deliver improvements to Littlehampton town centre public realm, along with £200k from Arun and £200k from Littlehampton Town Council. Due to increases in construction costs and therefore the need to reengineer the project to fit within budget and the impact of the Covid 19 pandemic this project has been delayed. Therefore, in order to secure the funding from the Local Growth

Fund the Council had to apply for flexibility funding. This is where Arun applies the balance of the grant funding (£488k) to its own funded capital schemes, thus freeing up its own funding to carry forward to apply to the public realm scheme in the following year.

The Council's housing stock development programme continued in 2020/21. There were 32 additions to the Council's housing stock in 2020/21 at a cost of £3.6m (£1.8m relating to one of these schemes was in the prior year), Windroos in Littlehampton consisting of 2 houses and 12 flats, Starling House also in Littlehampton a block of 10 flats and Quiet Waters in Angmering 8 flats. A further £1.03m was also spent on schemes at Pagham and Bognor Regis which are still under development.

Pictured on the left is Starling House, Littlehampton and top right an example of the properties at Quiet Waters, Angmering.

The total financing of Capital Expenditure for 2020/21 is summarised below:



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 latest 30 Year Housing Revenue Account Business Plan update was considered at cabinet on 4 March 2019 and approved by Full Council on 13 March 2019. The projections take account of a stock condition survey of the housing stock which was completed towards the end of 2018. The stock condition survey identified the requirement for significant additional investment over and above the level forecast in the Business Plan approved by Full Council in September 2017.

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 2020/21 the HRA, including the Major Repairs Reserve, showed a deficit of £0.113m compared with the budgeted deficit of £1.725m. The HRA reserve balance at 31 March 2021 was £6.489m. This balance is expected to significantly reduce over the first few years of the new Business Plan as a result of the programme of new dwellings and additional expenditure on the housing stock. The budget for 2021/22 is a £1.967m deficit.

The relationship between the HRA and the CIES and EFA is analysed on page 20. The deficit of £0.113m referred to above comprises £0.751m deficit on the HRA and £0.638m surplus on the Major Repairs Reserve.

Pensions Asset/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 asset/liability is matched by a reserve, the figures do not have any effect on the level of Council Tax in respect of the General Fund or Rent in respect of Housing Revenue Account.

As At 31 March 2021 there was an asset of £3.070m compared with a liability of £414k for the previous year. This means the Council currently has a surplus of around 1 years' service cost, which is within the allowed IAS 19 threshold. However, it should be noted that if there was a 0.5% decrease in Real Discount Rate, then the increase in liability could be as much as £18.6m

Following the revised triennial adjustment on 31 March 2020 where there was a substantial reduction in liability, the Council's Pension liability has been further reduced largely due to further remeasurements, especially the Return on Assets resulting in the net surplus at 31 March 2021.

The present funded liabilities comprise of approximately £77.219m, £37.842m and £85.95m in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2021.

Further information in relation to Pensions can be found under Note 38 - Defined Benefit Pension Scheme.

Treasury Management

The Council has significant cash surpluses, which are mainly invested with the highest quality banks and building societies. In addition, £5m is invested in a local authority property fund and £2m in a diversified fund with the same organisation. All investments are made in strict compliance with the CIPFA Treasury Management Code of Practice. Total investments amounted to £62.17m at 31 March 2021 (£62.34m including accrued interest), managed entirely internally. The total interest earned in 2020/21 was £0.627m, representing an average interest rate of 0.86% (2019/20 1.31%).

Rates reduced considerably in 2020/21 due to the pandemic (C19) although balances were healthy due to government grant support.

Balances and Reserves

The Council’s total usable reserves at 31 March 2021 amounted to £47.222m, an increase of £12.616m compared with the previous year (£34.606m). They were comprised of: earmarked reserves £29.161m; Housing Revenue Account balance £6.489m; General Fund Revenue balance £7.076m; usable capital receipts £1.933m (some of which must be spent within agreed timeframes); Housing Major Repairs Reserve £2.346m; and Capital Grants Unapplied £0.217m.

Explanation of the Accounting Statements

The accounting statements and their location in this document are listed on page i and ii. Their nature and purpose is described in the introductory paragraph on the relevant page. Key features for this year of account are as follows:

The Comprehensive Income and Expenditure Statement 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 £18.676m. Other charges relating to fixed assets and pensions, are notional 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 including Earmarked Reserves increased by £13.394m and HRA balances (including Major Repairs Reserve), decreased by £0.113m.

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 2020 and March 2021 is largely made up of £7.1m increase in the valuation of Council housing stock and £6.3m in HRA stock development additions.

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. It is here that the large movements relating to property revaluations are disclosed.

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 are also listed on pages i and ii. Their nature and purpose are as follows:

The Housing Revenue Account 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 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.

Further information on the accounts is available from the Interim Group Head of Corporate Support, Arun Civic Centre, Maltravers Road, Littlehampton West Sussex, BN17 5LF.

It is important to note that the deadlines for the preparation of the Accounts have been changed for 2020/21 due to the continuing impact of the Covid-19 pandemic. The draft Accounts must now be submitted for audit by 31 July 2021 and the timeline for conclusion of the Audit is 30 September 2021.

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 2021. 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.

Carolin Martlew C.P.F.A., Interim Group Head of Corporate Support — Dated 22 February 2022

Certificate of Approval by Audit and Governance Committee

I confirm that these account statements were approved by the Audit and Governance Committee of Arun District Council on 22 February 2022.

Councillor Mike Clayden, Chairman, Audit & Governance Committee — Dated 22 February 2022

Expenditure and Funding Analysis

The Expenditure and Funding Analysis is not a core statement but a note to the Financial Statements. It is positioned here as it provides a link from the figures reported in the Narrative Statement to the Comprehensive Income and Expenditure Statement (see Note 7 for further analysis).

2019/20 Net Expenditure Chargeable to the General Fund and HRA Balance	2019/20 Adjustments	2019/20 Net Expenditure in the Comprehensive Income and Expenditure Statement		2020/21 Net Expenditure Chargeable to the General Fund and HRA Balance	2020/21 Adjustments	2020/21 Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	**£000**	**£000**		**£000**	**£000**	**£000**
618	1,617	2,235	Community Wellbeing	598	(1,280)	(682)
399	15	414	Corporate Support Group	295	9	304
258	126	384	Economy	169	115	284
(1,907)	(6,755)	(8,662)	Local Authority Housing (HRA)	(1,091)	(12,839)	(13,930)
4,909	862	5,771	Neighbourhood Services	6,526	544	7,070
971	298	1,268	Planning	546	154	700
3,906	402	4,307	Residential Services	4,704	(105)	4,599
732	1,818	2,550	Technical Services	466	435	901
6,767	1,566	8,333	Management & Support Services	6,988	903	7,891
0	138	138	Non distributed costs / gains	0	59	59
16,653	**88**	**16,741**	**Net Cost of Services**	**16,367**	**(12,005)**	**4,362**
(17,037)	761	(16,275)	Other Income and Expenditure	(31,844)	5,972	(25,872)
(384)	**849**	**465**	**Surplus or Deficit on Provision of Services**	**(12,643)**	**(6,033)**	**(18,676)**
(29,700)			Opening Combined General Fund and HRA Balance	(30,084)		
(384)			Plus / less Surplus or Deficit on the General Fund and HRA Balance for the Year (Statutory basis)	(12,643)		
(30,084)			**Closing Combined General Fund and HRA Balance**	**(42,727)**		

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.

	2019/20					2020/21	
Expenditure	Income	Net			Expenditure	Income	Net
£000	£000	£000	Notes		£000	£000	£000
4,229	(1,993)	2,236		Community Wellbeing	1,164	(1,846)	(682)
517	(103)	414		Corporate Support Group	307	(2)	305
624	(240)	384		Economy	4,685	(4,401)	284
8,574	(17,236)	(8,662)		Local Authority Housing (HRA)	2,946	(16,876)	(13,930)
11,903	(6,131)	5,772		Neighbourhood Services	11,859	(4,790)	7,069
2,260	(992)	1,268		Planning	2,145	(1,445)	700
44,210	(39,903)	4,307		Residential Services	42,454	(37,855)	4,599
6,585	(4,035)	2,550		Technical Services	4,763	(3,862)	901
9,267	(934)	8,333		Management & Support Services	8,381	(490)	7,891
138	0	138		Non distributed costs / gains	59	0	59
88,308	**(71,568)**	**16,740**		**Cost of Services**	**78,763**	**(71,567)**	**7,196**
7,689	0	7,689		Other Operating Expenditure	5,253	(660)	4,593
6,386	(5,034)	1,352		Financing and Investment Income and Expenditure	5,339	(4,501)	838
0	(25,316)	(25,316)		Taxation and Non Specific Grant Income	0	(31,303)	(31,303)
102,383	**(101,918)**	**465**		**Surplus or Deficit on Provision of Services**	**89,355**	**(108,031)**	**(18,676)**
		(397)		(Surplus) or deficit on revaluation of Property, Plant and Equipment			(113)
		181		(Surplus) or deficit on revaluation of available for sale financial assets and financial instruments at fair value through other comprehensive income and expenditure			50
		(28,853)		Remeasurement of the net defined benefit liability / asset			(3,405)
		(29,068)		**Other Comprehensive Income and Expenditure**			**(3,469)**
		(28,603)		**Total Comprehensive Income and Expenditure**			**(22,145)**

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.

	Total General Fund Balance	Total HRA Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Un-applied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2020	(22,844)	(7,240)	(2,815)	(1,708)	0	**(34,606)**	(250,443)	**(285,049)**
Movement in reserves during 2020/21								
Surplus or deficit on the provision of services	(5,695)	(12,981)				**(18,676)**		**(18,676)**
Other Comprehensive Income / Expenditure							(3,469)	**(3,469)**
Total Comprehensive Income and Expenditure	**(5,695)**	**(12,981)**				**(18,676)**	**(3,468)**	**(22,145)**
Adjustments between accounting basis and funding basis under regulations	(7,699)	13,732	881	(638)	(217)	**6,060**	(6,060)	**0**
Increase or Decrease in 2020/21	**(13,394)**	**751**	**881**	**(638)**	**(217)**	**(12,617)**	**(9,527)**	**(22,144)**
Balance at 31 March 2021	**(36,238)**	**(6,489)**	**(1,933)**	**(2,346)**	**(217)**	**(47,222)**	**(259,971)**	**(307,193)**

General Fund Analysed over	
Amounts uncommitted	(7,076)
Amounts earmarked	(29,162)
Total balance	**(36,238)**

	Total General Fund Balance £000	Total HRA Balance £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Un-applied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2019	(22,470)	(7,229)	(2,791)	(1,165)	0	**(33,656)**	(222,789)	**(256,446)**
Movement in reserves during 2019/20								
Surplus or deficit on the provision of services	7,642	(7,176)				**465**		**465**
Other Comprehensive Income / Expenditure							(29,068)	**(29,068)**
Total Comprehensive Income and Expenditure	**7,642**	**(7,176)**				**465**	**(29,068)**	**(28,603)**
Adjustments between accounting basis and funding basis under regulations	(8,016)	7,166	(23)	(542)	0	**(1,415)**	1,415	**0**
Increase or Decrease in 2019/20	**(374)**	**(10)**	**(23)**	**(542)**	**0**	**(950)**	**(27,653)**	**(28,603)**
Balance at 31 March 2020	**(22,844)**	**(7,240)**	**(2,815)**	**(1,708)**	**0**	**(34,606)**	**(250,443)**	**(285,049)**

General Fund Analysed over	
Amounts uncommitted	(7,076)
Amounts earmarked	(15,768)
Total balance	**(22,844)**

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 2020			31 March 2021
£000	**Notes**		**£000**
298,840	14	Property, Plant and Equipment	314,566
827	15	Investment Property	829
89	16	Intangible Assets	82
5,891	17	Long-Term Investments	6,841
0	38	Long-Term Investments – Pension Asset	3,070
23	17	Long-Term Debtors	337
305,670		**Long Term Assets**	**325,725**
43,289	17	Short-Term Investments	37,168
0	20	Assets Held for Sale	0
7,265	18	Short-Term Debtors	22,886
9,937	17/19	Cash and Cash Equivalents	18,766
60,491		**Current Assets**	**78,821**
0	17	Short-Term Borrowing	(8,860)
(19,776)	21	Short-Term Creditors	(33,016)
(1,679)	22	Provisions	(3,000)
(2,741)	32	Grants Receipts in Advance - Capital	(3,553)
(24,195)		**Current Liabilities**	**(48,429)**
(8,254)	17/21A	Long-Term Creditors	(9,110)
(44,320)	17	Long-Term Borrowing	(35,460)
(414)	38	Pension Liability	0
(754)	35/38	Other Long-Term Liabilities	(1,320)
(3,176)	32	Grants Receipts in Advance - Capital	(3,034)
(56,918)		**Long Term Liabilities**	**(48,924)**
285,049		**Net Assets**	**307,193**

(34,606)	23	Usable Reserves	(47,222)
(250,443)	24	Unusable Reserves	(259,971)
(285,049)		**Total Reserves**	**(307,193)**

Carolin Martlew C.P.F.A., Interim Group Head of Corporate Support

22 February 2022

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.

2019/20 £000	Notes		2020/21 £000
465		Net (surplus) or deficit on the provision of services	(18,676)
(17,118)	25	Adjustment to surplus or deficit on the provision of services for noncash movements	(8,779)
3,677	25	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	(3,331)
(12,976)		**Net cash flows from operating activities**	**(30,786)**
4,760	26	Net cash flows from investing activities	4,692
7,214	27	Net cash flows from financing activities	17,264
(1,001)		**Net (increase) or decrease in cash and cash equivalents**	**(8,829)**
8,936		Cash and cash equivalents at the beginning of the reporting period	9,937
9,937		**Cash and cash equivalents at the end of the reporting period**	**18,766**

Note 1 - Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. 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 2020/21, 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- 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 statue 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 the 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.

Where debtor balances for the above are identified as impaired because of the likelihood arising from a past event that payments due under statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the taxation and non-specific grant income line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

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 to the Accumulated Absences Account 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 Hampshire County Council on behalf of 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 pension's 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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The main classes of financial asset measured at:

- amortised cost
- fair value through profit of loss (PFPL).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost:

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the

Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

Expected Credit Loss Model:

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

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

Financial Assets Measure at Fair Value through Profit and Loss:

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes party to the contractual provision of the financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

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

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

The inputs to the measurement techniques are categorised in accordance with three levels (see xxi Fair Value).

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

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.

Business Improvement Districts

A Business Improvement District (BID) scheme applies to Bognor Regis. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as an agent under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy

The Council has elected to charge a community infrastructure levy (CIL). The levy is charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the developments of the area.

The CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure, however, a proportion of the charges may be used to fund revenue 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 accrual 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:

- 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 – straight-line allocation generally over 5 - 20 years

- infrastructure – straight-line allocation generally over 20 - 40 years

- HRA dwellings – depreciation is based on a calculation of the weighted average remaining useful lives of key components of each dwelling (structure, roof, kitchen, bathroom, boiler and externals).

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 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.

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 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.

xxi. 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 participates 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 16 Leases

This has now been postponed until 2022/23 and will require Councils that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities.

IFRS 3 Business Combinations Changes

IFRS 3 outlines the accounting when an acquirer obtains control of a business, for example an acquisition or merger.

The updated changes in *Reference to the Conceptual Framework* (Amendments to IFRS 3) are as follows:

- update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and
- add to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

This change is unlikely to have any impact on the Council.

IFRS 9 / IAS 39 / IFRS 7 Interest Rate Benchmark Reform - Phase 1 & Phase 2

Benchmark interest rates are a core component of global financial markets. Retail and commercial loans, corporate debt, derivatives markets and many other financial markets and bilateral contracts all rely on these benchmark interest rates for pricing contracts and for hedging interest rate and other risks.

The London Interbank Offered Rate ('LIBOR') is one of the most common series of benchmark interest rates referenced by contracts measured in trillions of dollars across global currencies. Following the financial crisis, calls grew to reform the process used to generate LIBOR, other IBORs such as Euribor and other benchmark interest rates.

The resulting reforms aim to achieve a shift away from individual trader quotes to observed transaction rates and to increase the population on which those rates are based.

The overall reform changes are unlikely to have any impact on the Council.

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 used in the new Housing Responsive Repairs & Voids Contract and it has been determined that the contractual arrangements do have the substance of a lease (similar to the Council's combined cleansing and grounds maintenance contracts). The accounts have therefore been prepared on this basis.

- 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 2020/21 accounts.

- The Council has made judgements on a prudent level of allowances for an increase/decrease in impairment for bad 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 38.

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 2021 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 £327k 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 £18.617 million. However, the assumptions interact in complex ways. During 2020/21, the Council's actuaries advised that the net pension liability had decreased by £3.484 million attributable to changes in favourable financial assumptions.
Bad Debt Impairment	The Council has made allowances for bad debt impairment of £1.711 million in 2020/21 (£3.078 million in 2019/20) 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 £86k (£154k in 2019/20).
Provisions	A provision of £3m 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 2020/21 and earlier years, following successful challenges and appeals. The provision is based on advice received from the Council's business rating consultants.	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 £300k.

Item	Uncertainties	Effect if actual results differ from assumptions
Fair Value Measurements	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. 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. The valuations are reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, due to Covid-19, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.	Significant changes in any of the relevant factors or assumptions would result in a significantly lower or higher fair value measurement for the asset.

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 22 February 2022. 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 2021, 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

	2020/21				
	Net Capital Statutory Adjustments	Net Pensions Statutory Adjustments	Other Statutory Adjustments	Other Differences	Total Adjustments
	£000	**£000**	**£000**	**£000**	**£000**
Community Wellbeing	(1,361)	71	11	0	(1,280)
Corporate Support Group	0	8	1	0	9
Economy	89	18	8	0	115
Local Authority Housing (HRA)	(12,945)	91	15	0	(12,839)
Neighbourhood Services	408	113	22	0	544
Planning	0	131	23	0	154
Residential Services	(290)	159	27	0	(105)
Technical Services	253	154	28	0	435
Management & Support Services	185	571	147	0	903
Non distributed costs / gains	0	59	0	0	59
Net Cost of Services	**(13,660)**	**1,375**	**280**	**0**	**(12,005)**
Other Income and Expenditure	(1,526)	(1,454)	8,951	0	5,972
Difference between the Statutory Charge and the Surplus or Deficit in the Comprehensive Income and Expenditure Statement	**(15,186)**	**(79)**	**9,231**	**0**	**(6,033)**

	2019/20				
	Net Capital Statutory Adjustments	Net Pensions Statutory Adjustments	Other Statutory Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000	£000
Community Wellbeing	1,439	178	0	0	1,617
Corporate Support Group	0	15	0	0	15
Economy	89	37	0	0	126
Local Authority Housing (HRA)	(6,970)	215	0	0	(6,755)
Neighbourhood Services	604	259	0	0	862
Planning	0	298	0	0	298
Residential Services	13	388	0	0	402
Technical Services	1,333	342	143	0	1,818
Management & Support Services	280	1,286	0	0	1,566
Non distributed costs / gains	0	138	0	0	138
Net Cost of Services	**(3,211)**	**3,156**	**143**	**0**	**88**
Other Income and Expenditure	2,423	(1,345)	(316)	0	761
Difference between the Statutory Charge and the Surplus or Deficit in the Comprehensive Income and Expenditure Statement	**(788)**	**1,811**	**(173)**	**0**	**849**

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 receivables in the year to those receivables 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

	2019/20 £'000	2020/21 £'000
Expenditure / Income		
Expenditure		
Employee benefits expenses	4,817	3,552
Other services expenses	80,745	82,920
Depreciation, amortisation, impairment	2,667	(7,654)
Interest payments	6,382	5,285
Precepts and levies	4,741	5,039
Payments to Housing Capital Receipts Pool	342	213
Loss on the disposal of assets	2,689	0
Total expenditure	**102,383**	**89,355**
Income		
Fees, charges and other service income	28,496	26,181
Interest and investment income	4,968	4,426
Income from council tax, non-domestic rates, district rate income	20,256	10,316
Government grants and contributions	48,197	66,845
Gain on the disposal of assets	1	263
Total income	**101,918**	**108,031**
(Surplus) or Deficit on the Provision of Services	**465**	**(18,676)**

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.

2020/2021	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)	(92)	171				(79)
Council tax and NDR (transfers to or from the Collection Fund)	(8,951)					8,951
Holiday pay (transferred to the Accumulated Absences reserve)	(265)	(15)				280
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)	1,465	6,757			(748)	(7,474)
Total Adjustments to Revenue Resources	(7,844)	6,913	0	0	(748)	1,679
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	144	777	(921)			
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(213)		213			
Posting of Housing Revenue Account resource from revenue to the Major Repairs Reserve		6,005		(6,005)		
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)	214					(214)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	0	37				(37)
Total Adjustments between Revenue and Capital Resources	145	6,819	(708)	(2,461)	0	(3,795)

Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure			1,589			(1,589)
Use of the Major Repairs Reserve to finance new capital expenditure				1,823		(1,823)
Application of capital grants to finance capital expenditure					531	(531)
Total Adjustments to Capital Resources	0	0	1,589	1,823	531	(3,944)
Other adjustments	0	0	0	0	0	0
Total Adjustments	**(7,699)**	**13,732**	**881**	**(638)**	**(217)**	**(6,060)**

2019/2020	**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)	(1,924)	114				1,811
Council tax and NDR (transfers to or from the Collection Fund)	316					(316)
Holiday pay (transferred to the Accumulated Absences reserve)	0	0				0
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)	(9,388)	693			(127)	8,822
Total Adjustments to Revenue Resources	(10,996)	807	0	0	(127)	10,317
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	2,925	624	(3,549)			
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(342)		342			
Posting of Housing Revenue Account resource from revenue to the Major Repairs Reserve		5,735		(5,735)		
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)	210					(210)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	188	0				(188)
Total Adjustments between Revenue and Capital Resources	2,981	6,359	(3,207)	(2,191)	0	(3,942)

Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure			3,184			(3,184)
Use of the Major Repairs Reserve to finance new capital expenditure				1,649		(1,649)
Application of capital grants to finance capital expenditure					127	(127)
Total Adjustments to Capital Resources	0	0	3,184	1,649	127	(4,960)
Other adjustments	0	0	0	0	0	0
Total Adjustments	**(8,016)**	**7,166**	**(23)**	**(542)**	**0**	**1,415**

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 2020/21.

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 service portfolios, 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 2019	**Transfers In 2019/20**	**Transfers Out 2019/20**	**Balance at 31 March 2020**	**Transfers In 2020/21**	**Transfers Out 2020/21**	**Balance at 31 March 2021**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
General Fund Reserves:							
Delayed capital & special projects	(2,180)	(4,434)	2,180	**(4,434)**	(4,923)	4,384	**(4,973)**
Pension deficit financing	(885)	0	885	**0**	0	0	**0**
Community Wellbeing	(1,380)	(133)	883	**(630)**	(383)	158	**(855)**
Corporate Governance	(4,321)	(2,368)	204	**(6,484)**	(11,546)	252	**(17,778)**
Economy	(2,529)	(179)	2,529	**(179)**	(485)	138	**(526)**
Neighbourhood Services	(735)	(421)	252	**(904)**	(440)	159	**(1,185)**
Planning	(796)	(346)	614	**(528)**	(290)	348	**(470)**
Residential Services	(1,502)	(126)	531	**(1,097)**	(259)	67	**(1,289)**
Technical Services	(1,068)	(637)	192	**(1,512)**	(727)	153	**(2,086)**
Total General Fund	**(15,394)**	**(8,644)**	**8,270**	**(15,768)**	**(19,053)**	**5,659**	**(29,162)**

Note 11 - Other Operating Expenditure

2019/20 £000		2020/21 £000
4,534	Precepts	4,832
206	Levies	207
342	Payments to the Government Housing Capital Receipts Pool	213
2,606	Gains/losses on the Disposal of Non-Current Assets	(660)
7,689	**Total Other Operating Expenditure**	**4,593**

Note 12 - Financing and Investment Income and Expenditure

2019/20 £000		2020/21 £000
1,620	Interest payable and similar charges	1,479
673	Net interest on the net defined benefit liability (asset)	9
(852)	Interest receivable and similar income	(629)
(63)	Income and expenditure in relation to investment properties and changes in their fair value	(21)
(27)	Changes in impairment loss allowance of financial instruments	1
1,352	**Total**	**838**

Note 13 - Taxation and Non-Specific Grant Income

2019/20 £000		2020/21 £000
(15,571)	Council tax income	(16,228)
(4,684)	Non-domestic rates income and expenditure	5,912
(4,933)	Non-ringfenced government grants	(20,239)
(127)	Capital grants and contributions	(748)
(25,316)	**Total**	**(31,303)**

Note 14 - Property, Plant and Equipment

Movements to 31 March 2021

	Council Dwellings	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
at 1 April 2020	217,692	66,590	6,444	14,232	2,822	104	3,231	**311,115**
Additions	4,955	171	1,453	28	0	0	1,569	**8,175**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(483)	0	0	0	0	0	**(483)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	7,158	2,106	0	0	0	0	0	**9,264**
Reclassifications and transfer	2,215	178	0	0	0	0	(2,393)	**0**
Assets reclassified (to)/from Held for Sale	(261)	0	0	0	0	0	0	**(261)**
at 31 March 2021	**231,758**	**68,562**	**7,897**	**14,260**	**2,822**	**104**	**2,407**	**327,810**
Accumulated Depreciation and Impairment								
at 1 April 2020	0	(125)	(1,924)	(10,226)	0	0	0	**(12,274)**
Depreciation charge	(5,705)	(912)	(691)	(254)	0	0	0	**(7,561)**
Depreciation written out to the Revaluation Reserve	0	596	0	0	0	0	0	**596**
Depreciation written out to the Surplus/Deficit on the Provision of Services	5,705	291	0	0	0	0	0	**5,996**
at 31 March 2021	**0**	**(149)**	**(2,615)**	**(10,479)**	**0**	**0**	**0**	**(13,244)**
Net Book Value								
at 31 March 2021	**231,758**	**68,412**	**5,282**	**3,780**	**2,822**	**104**	**2,407**	**314,567**
at 31 March 2020	**217,692**	**66,465**	**4,521**	**4,006**	**2,822**	**104**	**3,231**	**298,840**

Movements to 31 March 2020

	Council Dwellings	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation								
at 1 April 2019	215,808	67,989	6,079	14,232	2,784	104	44	**307,040**
Additions	1,655	193	504	0	0	0	3,187	**5,540**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(203)	0	0	0	0	0	**(203)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	667	(1,834)	0	0	0	0	0	**(1,167)**
Derecognition – disposals	0	(4)	(138)	0	0	0	0	**(142)**
Derecognition – other	(120)	(3,063)	0	0	0	0	0	**(3,183)**
Reclassifications and transfer	0	3,511	0	0	39	0	0	**3,549**
Assets reclassified (to)/from Held for Sale	(319)	0	0	0	0	0	0	**(319)**
at 31 March 2020	**217,692**	**66,590**	**6,444**	**14,232**	**2,822**	**104**	**3,231**	**311,115**
Accumulated Depreciation and Impairment								
at 1 April 2019	0	(81)	(1,405)	(9,972)	0	0	0	**(11,458)**
Depreciation charge	(5,547)	(939)	(554)	(254)	0	0	0	**(7,294)**
Depreciation written out to the Revaluation Reserve	0	600	0	0	0	0	0	**600**
Depreciation written out to the Surplus/Deficit on the Provision of Services	5,547	295	0	0	0	0	0	**5,843**
Derecognition – disposals	0	0	35	0	0	0	0	**35**
at 31 March 2020	**0**	**(125)**	**(1,924)**	**(10,226)**	**0**	**0**	**0**	**(12,274)**
Net Book Value								
at 31 March 2020	**217,692**	**66,465**	**4,521**	**4,006**	**2,822**	**104**	**3,231**	**298,840**
at 31 March 2019	**215,808**	**67,909**	**4,673**	**4,259**	**2,784**	**104**	**44**	**295,581**

Depreciation

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

- buildings (other than HRA dwellings) – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant and equipment – straight-line allocation generally over 5 - 20 years
- infrastructure – straight-line allocation generally over 20 - 40 years
- HRA dwellings – depreciation is based on a calculation of the weighted average remaining useful lives of key components of each dwelling (structure, roof, kitchen, bathroom, boiler and externals).

Capital Commitments

At 31 March 2021, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2020/21 budgeted to cost £494k. Similar commitments at 31 March 2020 were £347k.

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	Surplus Assets	Assets under Construction	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Carried at historical cost	0	0	5,282	3,780	2,822	0	2,407	14,292
Valued at current value as at:								
31/03/2021	231,758	57,631	0	0	0	0	0	289,389
31/03/2020	0	2,641	0	0	0	8	0	2,649
31/03/2019	0	5,779	0	0	0	96	0	5,875
31/03/2018	0	2,361	0	0	0	0	0	2,361
Total Cost or Valuation	**231,758**	**68,412**	**5,282**	**3,780**	**2,822**	**104**	**2,407**	**314,567**

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.

31 March 2020 £000	Investment Property Income and Expenditure	31 March 2021 £000
(66)	Rental income from investment property	(71)
4	Direct operating expenses from investment property	53
0	Other income and expenditure	(2)
(62)	**Net (gain)/loss**	**(20)**

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:

31 March 2020 Non-Current £000	Investment Properties Movements in Year	31 March 2021 Non-Current £000
4,376	Opening Balance	827
1	Net gains/losses from fair value adjustments	1
	Transfers:	
(3,549)	to/from Property Plant and Equipment	0
827	**Balance at the end of the year**	**829**

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 valuers, 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 2021 and 2020 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 2021
	£000	£000	£000	£000
Commercial unit			829	829
Total	**-**	**-**	**829**	**829**

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 2020
	£000	£000	£000	£000
Commercial unit			827	827
Total	**-**	**-**	**827**	**827**

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 unit located in the local authority area is 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).

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

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.

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:

31 March 2020 Total £000		**31 March 2021 Total £000**
	Balance at start of year:	
425	Gross carrying amounts	425
(287)	Accumulated amortisation	(336)
138	**Net carrying amount at start of year**	**89**
	Additions:	
0	Purchases	37
(49)	Amortisation for the period	(44)
89	**Net carrying amount at end of year**	**82**
	Comprising:	
425	Gross carrying amounts	462
(336)	Accumulated amortisation	(380)
89	**Total**	**82**

Note 17 - Financial Instruments

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

Financial Asset

	Non Current				Current					
	Investments		**Debtors**		**Investments**		**Debtors**		**Total**	**Total**
	31 Mar 2020 £000	31 Mar 2021 £000	31 Mar 2020 £000	31 Mar 2021 £000	31 Mar 2020 £000	31 Mar 2021 £000	31 Mar 2020 £000	31 Mar 2021 £000	31 Mar 2020 £000	31 Mar 2021 £000
IFRS Categories										
Fair value through Profit or loss	4,891	6,841	-	-	-	-	-	-	4,891	6,841
Amortised cost	1,000	-	-	-	52,937	55,766	-	-	53,937	55,766
Total financial assets	**5,891**	**6,841**	**-**	**-**	**52,937**	**55,766**	**-**	**-**	**58,828**	**62,608**
Non-financial assets	-	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	288	169	-	-	288	169
Debtors	-	-	23	337	-		4,285	5,877	4,308	6,214
Total	**5,891**	**6,841**	**23**	**337**	**53,225**	**55,935**	**4,285**	**5,877**	**63,425**	**68,990**

Financial Liabilities

	Non Current				Current					
	Borrowings		**Creditors**		**Borrowings**		**Creditors**		**Total**	**Total**
	31 Mar 2020 £000	31 Mar 2021 £000	31 Mar 2020 £000	31 Mar 2021 £000	31 Mar 2020 £000	31 Mar 2021 £000	31 Mar 2020 £000	31 Mar 2021 £000	31 Mar 2020 £000	31 Mar 2021 £000
Amortised cost										
PWLB borrowings	44,320	35,460	-	-	-	8,860	-	-	44,320	44,320
Total financial assets	44,320	35,460	-	-	-	8,860	-	-	44,320	44,320
Non-financial liability (creditors)	-	-	8,254	9,110	-	-	5,450	29,013	13,705	38,122
Total	**44,320**	**35,460**	**8,254**	**9,110**	**-**	**8,860**	**5,450**	**29,013**	**58,025**	**82,442**

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:

	31 Mar 2020		31 Mar 2021		Total	Total
	Surplus or Deficit on the Provision of Service	Other Comprehensive Income and Expenditure	Surplus or Deficit on the Provision of Service	Other Comprehensive Income and Expenditure	2020	2021
	£000	£000	£000	£000	£000	£000
Net gains/losses on:						
Financial assets measured at fair value through Profit or loss	-	(109)	-	(159)	(109)	(159)
Total net gains/losses	**-**	**(109)**	**-**	**(159)**	**(109)**	**(159)**
Interest revenue	852	-	629	-	852	629
Interest expense	(1,620)	-	(1,479)	-	(1,620)	(1,479)
Total	**(768)**	**(109)**	**(849)**	**(159)**	**(877)**	**(1,008)**

Breakdown of financial assets and liabilities:

	Long-term		Current	
	31 Mar 2020	**31 Mar 2021**	**31 Mar 2020**	**31 Mar 2021**
	£000	**£000**	**£000**	**£000**
Financial assets				
Investments:				
Amortised Cost				
Lloyds Banking Group	1,000	-	9,000	1,000
Santander UK	-	-	1,000	-
Barclays	-	-	-	3,000
Development Bank of Singapore	-	-	7,000	10,000
Qatar National Bank	-	-	9,000	10,000
Close Brothers Limited		-	3,000	6,000
Goldman Sachs International	-	-	5,000	3,000
Skipton Building Society	-	-	2,000	-
Yorkshire Building Society	-	-	-	2,000

Blackpool BC		-	1,000	-
Fife Council		-	2,000	-
Liverpool CC		-	2,000	-
Slough BC			-	2,000
Swindon BC		-	2,000	-
Cash & cash equivalents	-	-	9,937	18,766
Fair Value through Profit and Loss				
CCLA property Fund	4,891	4,856	-	-
CCLA diversified Fund		1,985	-	-
Accrued interest	-	-	288	169
Total investments	**5,891**	**6,841**	**53,225**	**55,935**
Debtors	23	337	4,285	5,877
Financial liabilities at amortised cost				
Borrowings (all PWLB)	44,320	35,460	-	8,860
Creditors	8,254	9,110	5,450	29,013

Fair value of assets and liabilities

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 Mar 2020 Fair Value £000	31 Mar 2021 Fair Value £000
Financial Instrument Revaluation Reserve: CCLA	Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly	4,945	6,902
		Total:	**4,945**	**6,902**

Fair value of assets and liabilities

Financial liabilities (PWLB), financial assets represented by amortised cost and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Investments designated at fair value through other comprehensive income are carried at fair value - the price that would be received or paid in an orderly transaction between market participants at the measurement date.

	31 March 2020		31 March 2021	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	£000	£000	£000	£000
Financial liabilities (PWLB loans)	44,320	67,891	44,320	60,958
Long-term creditors	-	-	-	-
Other Liabilities	968	968	1,621	1,621
Financial assets at Amortised cost	53,937	53,943	55,283	55,322
Investments at FVPL	4,945	4,945	6,902	6,902
Long-term debtors	23	23	337	337

The fair values calculated are as follows:

- The fair value of the PWLB loans £61million is calculated using the premature repayment method as at 31 March 2021 inclusive. (Level 2)
- The fair value of the Financial assets at Amortised cost is calculated by reference to prevailing benchmark market rates. (Level 2)
- The fair value of the Financial assets at FVPL is calculated using quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date, (Level 1). COVID -19 impacted the CCLA property fund in 2019/20 and no withdrawals were allowed from the fund and therefore the fair value level was changed from Level 1 to Level 2 but the suspension was lifted in September 2020. The fund moved to 90-day notice of redemption co-incidentally at the same time. The fair value level will remain unchanged from 2019/20 (Level 2). As per IFRS9 and the statutory override of 5 years (until 31/3/2023) Available for sale has now been re classified as Fair Value through Profit & Loss, (CCLA property fund and diversified fund).
- 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 (MMF) which have been rated "AAA", or equivalent and are Low Volatility NAV (LVNAV), 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 £62 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 2021 that this was likely to materialise. The following analysis summarises the risk categories of the Council's financial assets at 31 March 2021.

	Amount at 31 March 2021
	£000
Deposits with financial institutions:	
AAA rated counterparties	4,000
AA rated counterparties	10,000
A rated counterparties	37,175
Local Authorities	2,000
Part Nationalised Banks	-
Building Societies with assets greater than £10 Billion	2,000
Unrated pooled Funds	7,000
Total	**62,175**

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 £445k of the £6.2 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:

	31 March 2020	31 March 2021
	£000	**£000**
Less than three months	47	65
Three to nine months	75	62
Nine months to one year	50	45
More than one year	187	273
Total	**359**	**445**

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.

	31 March 2020	31 March 2021
	£000	£000
Less than one year	-	8,860
Between one and two years	8,860	-
Between two and five years	-	-
Between five and ten years	8,870	8,870
Between ten and twenty years	8,870	8,870
More than twenty years	17,720	17,720
Total	**44,320**	**44,320**

Market Risk

Interest Rates Risk.

The Council's borrowings are 100% fixed rate and are therefore not subject to fluctuations in interest rates. Generally, investments are at a fixed rate, but to ensure stability and liquidity, Money Market Funds, call accounts, structured products where there is an interest rate floor and cap or annual rate change, and notice accounts for notice periods of 35 and 95 days are also used. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in interest rates would have the following effects:

- investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates - the fair value of the assets will fall.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements which 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 2021, 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 £136k.

Price Risk.

The Council does not generally invest in equity shares so is not exposed to losses arising from movements in the prices of shares, however the Council does have £5m invested in the CCLA Property Fund and £2m invested in the CCLA Diversified Fund where there is exposure to losses arising from movements in the value of the fund. Due to the 5 year statutory override, any gains or losses are not charged to the General Fund currently.

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

31 March 2020 £000		31 March 2021 £000
2,963	Trade Receivables	3,262
878	Prepayments	752
3,425	Other Receivable Amounts	18,872
7,265	**Total**	**22,886**

Other Receivable Amounts include NHS, Local Government, Police Authorities and Government bodies.

Note 19 - Cash and Cash Equivalents

31 March 2020 £000		31 March 2021 £000
235	Cash and Bank balances	591
9,702	Short Term Deposits / Cash Equivalents	18,175
9,937	**Total Cash and Cash Equivalents**	**18,766**

Note 20 - Assets Held for Sale

Current		Current
31 March 2020 £000		**31 March 2021 £000**
2,548	Balance outstanding at start of year	0
	Assets newly classified as held for sale:	
319	- Property Plant and Equipment	261
(2,867)	Assets sold	(261)
0	**Balance Outstanding year end**	**0**

Note 21 - Creditors

31 March 2020 £000		31 March 2021 £000
(4,676)	Trade payables	(3,854)
(15,100)	Other payables	(29,161)
(19,776)	**Total Creditors**	**(33,016)**

Other Payable Amounts include NHS, Local Government, Police Authorities and Government bodies.

Note 21A - Long Term Creditors

31 March 2020 £000		31 March 2021 £000
(8,254)	s.106 1990 Town & Country Planning Act	(10,430)
(8,254)	**Total Long Term Creditors**	**(10,430)**

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

Long Term Provisions

2019/20 £000	Total Provisions	2020/21 £000
(2,874)	Opening Balance	(1,679)
(301)	Increase in provision during year	(535)
59	Utilised during year	891
1,437	Other movements	(1,679)
(1,679)	**Closing Balance**	**(3,000)**

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 or the amount of rate relief (if any) they have been granted. The provision of £3m represents the Council's share of the estimated amounts which will be funded in respect of all business rate liability for 2020/21 and earlier years resulting from successful appeals.

The other movements of (£1.679m) relates to a change in percentage share from 2019/20 to 2020/21. The overall increase in Arun's share was a result of a change in Business Rates Retention Scheme. This meant that Arun's share changed from 20% (2019/20) to 40% (2020/21).

Note 23 - Usable Reserves

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

Note 24 - Unusable Reserves

31 March 2020 £000		31 March 2021 £000
(27,040)	Revaluation Reserve	(26,742)
109	Financial Instruments Revaluation Reserve	159
(224,361)	Capital Adjustment Account	(239,985)
414	Pension Reserve	(3,070)
332	Collection Fund Adjustment Account	9,283
104	Accumulated Absences Account	384
(250,443)	**Total**	**(259,971)**

Revaluation Reserve

31 March 2020 £000		31 March 2021 £000
(28,355)	**Balance 1 April**	(27,040)
(1,852)	Upward revaluation of assets	(1,210)
1,455	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	1,097
(397)	**Surplus or deficit on revaluation of non-current assets not charged to the Surplus or Deficit on the Provision of Services**	**(113)**
418	Difference between fair value depreciation and historical cost depreciation	412
1,294	Accumulated gains on assets sold or scrapped	0
0	Other amounts written off to the Capital Adjustment Account	0
1,712	**Amount written off to the Capital Adjustment Account**	**412**
(27,040)	**Balance 31 March**	**(26,742)**

Financial Instruments Revaluation Reserve

31 March 2020 £000		31 March 2021 £000
(72)	**Balance 1 April**	109
0	Upward revaluation of investments	0
181	Downward revaluation of investments	50
0	Change in impairment loss allowances	0
181	**Total Changes in revaluation and impairment**	**50**
109	**Balance 31 March**	**159**

Capital Adjustment Account

31 March 2020 £000		31 March 2021 £000
(222,570)	**Balance 1 April**	(224,361)
7,294	Charges for depreciation and impairment of non-current assets	7,561
(4,675)	Revaluation losses on non-current assets	(15,260)
49	Amortisation of intangible assets	44
2,181	Revenue expenditure funded from capital under statute	2,137
6,156	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	261
11,004	Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	(5,257)
(1,712)	Adjusting Amounts written out of the Revaluation Reserve	(412)
9,293	**Net written out amount of the cost of non-current assets consumed in the year**	(5,669)
(3,184)	Use of Capital Receipts Reserve to finance new capital expenditure	(1,589)
(1,649)	Use of Major Repairs Reserve to finance new capital expenditure	(1,823)
(2,308)	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(2,668)

(210)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(293)
(188)	Capital expenditure charged against the General Fund and HRA balances	(37)
(7,539)	**Capital financing applied in year:**	(6,410)
(3,544)	Borrowing or liabilities met from the Major Repairs Reserve	(3,544)
(1)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1)
0	Other movements	0
(224,361)	**Balance 31 March**	**(239,985)**

Pension Reserve

31 March 2020 £000		**31 March 2021 £000**
27,456	Balance 1 April	414
(28,853)	Remeasurements of the net defined benefit (liability)/asset	(3,405)
5,646	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	3,561
(3,835)	Employer's pensions contributions and direct payments to pensioners payable in the year	(3,640)
414	**Balance 31 March**	**(3,070)**

Collection Fund Adjustment Account

31 March 2020 £000		**31 March 2021 £000**
648	Balance 1 April	332
(316)	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	8,951
0	Other movements	0
332	**Balance 31 March**	**9,283**

Accumulated Absences Account

31 March 2020 £000		31 March 2021 £000
104	**Balance 1 April**	104
(104)	Settlement or cancellation of accrual made at the end of the preceding year	(104)
104	Amounts accrued at the end of the current year	384
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	280
104	**Balance 31 March**	**384**

Note 25 - Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

31 March 2020 £000		31 March 2021 £000
(797)	Interest received	(749)
1,620	Interest paid	1,479
823	**Total**	**729**

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

31 March 2020 £000		31 March 2021 £000
(7,294)	Depreciation	(7,561)
4,675	Impairment and downward valuations	15,260
(49)	Amortisation	(44)
(7,495)	(Increase)/decrease in creditors	(17,755)
(185)	Increase/(decrease) in debtors	2,824
(1,811)	Movement in pension liability	79
(6,156)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(262)
1,196	Other non-cash movements charged to the surplus or deficit on provision of services	(1,320)
(17,118)	**Total**	**(8,779)**

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

31 March 2020 £000		31 March 2021 £000
0	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(5,000)
3,549	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	921
127	Any other items for which the cash effects are investing or financing cash flows	748
3,677	**Total**	**(3,331)**

Note 26 - Cash Flow from Investing Activities

31 March 2020 £000		31 March 2021 £000
5,973	Purchase of property, plant and equipment, investment property and intangible assets	6,919
4,000	Purchase of short-term and long-term investments	0
(3,549)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(921)
0	Proceeds from short-term and long-term investments	0
(1,664)	Other receipts from investing activities	(1,306)
4,760	**Net cash flows from investing activities**	**4,692**

Note 27 - Cash Flow from Financing Activities

31 March 2020 £000		31 March 2021 £000
210	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts	293
8,860	Repayments of short-term and long-term borrowing	0
(1,855)	Other payments for financing activities	16,971
7,214	**Net cash flows from financing activities**	**17,264**

Note 28 - Agency Services

The Council provided the following agency services in 2020/21

- Collection of Penalty Notices for West Sussex County Council created a surplus in the General Fund Accounts of £90k.

- Collection of car park income for other third parties (£2k).

- 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:

31 March 2020 £000		31 March 2021 £000
420	Salaries	429
5	Allowances	0
2	Expenses	0
427	**Total Members' Allowances**	430

Note 30 - Officers' Remuneration

Senior Officer Remuneration

2020/21		Salary, Fees and Allowances	Expenses Allowances	Compensation for Loss of Office	Pension Contribution	Total
		£'000	£'000	£'000	£'000	£'000
Chief Executive	**2020/21**	126	-	-	27	**153**
	2019/20	124	-	-	22	**146**
Director of Place	**2020/21**	101	-	-	22	**123**
	2019/20	94	-	-	17	**111**
Director of Services	**2020/21**	101	-	-	22	**123**
	2019/20	94	-	-	17	**111**
Group Head - Policy	**2020/21**	74	-	-	16	**90**
	2019/20	72	-	-	13	**85**
Group Head - Council Advice & Monitoring Officer	**2020/21**	38	-	-	7	**45**
	2019/20	71	-	-	13	**84**
Group Head - Corporate Support & S151 Officer	**2020/21**	64	-	-	14	**78**
	2019/20	64	-	-	11	**75**
Group Head - Planning	**2020/21**	73	-	-	16	**89**
	2019/20	66	-	-	12	**78**
Group Head - Technical Services	**2020/21**	74	-	-	16	**90**
	2019/20	72	-	-	13	**85**
Group Head - Economy	**2020/21**	68	-	-	15	**83**
	2019/20	66	-	-	12	**78**
Group Head - Community Wellbeing	**2020/21**	74	-	-	16	**90**
	2019/20	72	-	-	13	**85**
Group Head - Residential Services	**2020/21**	74	-	-	16	**90**
	2019/20	72	-	-	13	**85**

Group Head - Neighbourhood Services	**2020/21**	76	-	-	16	**92**
	2019/20	74	-	-	13	**87**
Total	**2020/21**	**943**	**-**	**-**	**203**	**1,146**
	2019/20	**941**	**-**	**-**	**169**	**1,110**

The Council's Senior Officer remuneration for the year (including employer's pension contributions).

The reduced total for the 'Group Head - Council Advice & Monitoring Officer' is due to the post being vacant for seven months.

The reduced total for the 'Group Head - Corporate Support & S151 Officer' is due to flexible retirement, ongoing from 2019/20.

No Senior Officers were in receipt of bonus payments or benefits in kind for 2020/21.

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:

	2019/20	2020/21
£50,001 to £55,000	9	13 *
£55,001 to £60,000	5	7 **
£60,001 to £65,000	0	4 ***
£65,001 to £70,000	0	0
£70,001 to £75,000	0	0
£75,001 to £80,000	0	0
£80,001 to £85,000	0	0
£85,001 to £90,000	0	0
£90,001 to £95,000	0	0
£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	0	0
Total	**14**	**24**

<u>2020/21</u>

* One person included by virtue of redundancy & one person included by virtue of annualised salary

** Two people included by virtue of annualised salary

*** One person included by virtue of redundancy

<u>2019/20</u>

* One employee included by virtue of annualised salary

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	
	19/20	20/21	19/20	20/21	19/20	20/21	19/20	20/21
£0-£20,000	2	3	0	0	2	3	£8	£45
£20,001-£40,000	0	5	0	0	0	5	£0	£151
£40,000-£60,000	0	4	0	0	0	4	£0	£193
£60,001-£80,000	1	0	0	0	1	0	£75	£0
£80,001-£100,000	0	0	0	0	0	0	£0	£0
£100,001-£150,000	0	0	0	0	0	0	£0	£0
£150,001-£200,000	0	0	0	0	0	0	£0	£0
Total	**3**	**12**	**0**	**0**	**3**	**12**	**£83**	**£389**

The total cost of £389,000 in the table above includes exit packages that have been charged to the Council's Comprehensive Income & Expenditure Statement in 2020/21 excluding accruals made for redundancies & disclosed in 2019/20.

Note 31 - External Audit Costs

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

2019/20		2020/21
£000		£000
45	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	55
13	Fees payable to external auditors for the certification of grant claims and returns for the year	14
58	**Total**	**69**

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

31 March 2020 £000		31 March 2021 £000
(396)	Benefits Administration Grant	(420)
(168)	Localised Council Tax Support Administration	(153)
(182)	Business Rate Collection Allowance	(182)
(2,664)	New Homes Bonus Grant	(2,295)
(1,128)	S.31 grants paid to compensate for the loss of business rate income	(12,172)
(38)	Individual Electoral Register (IER)	(13)
(255)	Other Non-Ringfenced Grants	(128)
(69)	Homeless Reduction	0
(35)	Leaving EU	(8)
0	Covid-19 Hardship Relief	(945)
0	Covid-19 Rough Sleeping	(21)
0	Covid-19 New Burdens Support Grant	(270)
0	Covid-19 Support Grant	(2,373)
0	Covid-19 Self Isolation Payments	(240)
0	Sales, Fees & Charges Support Grant	(1,018)
(127)	Capital Grants and Contributions	(748)
(5,060)	**Total**	**(20,987)**

Credited to Services

31 March 2020 £000		31 March 2021 £000
(403)	Community wellbeing	(437)
(35)	Coast Protection	(51)
(323)	Housing	(315)
(92)	Crime Reduction	(181)
(855)	Leisure	(704)
(1,999)	Disabled Facilities Grants	(2,012)
(219)	Economic Regeneration	(4,394)
(97)	Family Intervention project	-
(58)	Fuel poverty	(5)
(38,015)	Housing Benefit Subsidy	(35,599)
-	Neighbourhood Plan	(30)
(507)	Homelessness	(1,336)
(416)	Elections	-
(488)	Other	(518)
(43,507)	**Total**	**(45,582)**

Grants Receipts in Advance (Capital Grants) - Current Liabilities

31 March 2020 £000		31 March 2021 £000
(1,497)	Disabled Facility Grant	(1,323)
0	Developers' Contributions	0
(44)	Coastal Revival Fund	0
(1,200)	Coastal Communities Fund	(2,230)
(2,741)	**Total**	**(3,553)**

Grants Receipts in Advance (Capital Grants) - Long Term Liabilities

31 March 2020 £000		31 March 2021 £000
(3,176)	Developers' Contributions	(3,034)
(3,176)	**Total**	**(3,034)**

As expenditure from Developers’ contributions relating to the provision of affordable housing by registered social landlords is capital by nature and should be treated as revenue expenditure funded from capital under statue (REFCUS), they are classified as a capital grant. The classification of the liability between current and long term is based upon the repayment terms contained within the planning agreement with the developer.

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 2021 are shown in Note 18 (Other Receivable Amounts).

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2020/21 is shown in Note 29. No members declared any transactions for 2020/21 that fall within the related party definition.

Officers

The Council's Chief Executive currently has £3k outstanding on their car loan. Repayments amounting to £4k were made during 2020/21. No other transactions with senior officers fall within the related party definition.

Other Public Bodies

Precepts and levies totalling £5.04 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 2020 £000		31 March 2021 £000
51,717	Opening Capital Financing Requirement	48,355
	Capital Investment:	
5,540	Property Plant and Equipment	8,175
0	Intangible Assets	37
2,181	Revenue Expenditure Funded from Capital Under Statute	2,137
7,721	**Total Capital Spending**	**10,349**
	Sources of Finance:	
(3,184)	Capital receipts	(1,589)
(2,308)	Government Grants and other contributions	(2,668)
(1,649)	Major repairs reserve	(1,823)
	Sums set aside from revenue:	
(188)	- Direct revenue contributions	(37)
(3,544)	- Borrowing or liabilities met from the Major Repairs Reserve	(3,544)
(210)	- Minimum revenue provision	(293)
(11,083)	**Total Sources of Finance**	**(9,954)**
48,355	**Closing Capital Financing Requirement**	**48,750**

Explanation of movements in year

31 March 2020 £000		31 March 2021 £000
2,315	Increase in underlying need to borrow (unsupported by government financial assistance)	3,285
0	Assets acquired under finance leases	947
(5,677)	Other movements	(3,837)
(3,362)	**Increase/(decrease) in Capital Financing Requirement**	**394**

Note 35 - Leases

Council as Lessee

Finance Leases

In 2020/21 a new Housing Responsive Repairs & Voids Contract was entered into. Under IFRIC 4 'Determining Whether an Arrangement Contains a Lease' it has been deemed that the contract contained a finance lease 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:

31 Mar 2020 £000		31 Mar 2021 £000
936	Vehicles, Plant & Equipment	1,574
936	**Total**	**1,574**

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:

31 Mar 2020 £000		31 Mar 2021 £000
	Finance lease liabilities (net present value of minimum lease payments):	
214	current	301
754	non-current	1,321
66	Finance costs payable in future years	227
1,034	**Minimum lease payments**	**1,849**

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

Minimum Lease Payments			Finance Lease Liabilities	
31 Mar 2020	31 Mar 2021		31 Mar 2020	31 Mar 2021
£000	£000		£000	£000
235	352	Not later than one year	214	301
634	960	Later than one year and not later than five years	594	828
164	537	Later than five years	159	492
1,033	**1,849**	**Total**	**967**	**1,621**

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:

31 Mar 2020		31 Mar 2021
£000		£000
93	Not later than one year	42
62	Later than one year and not later than five years	23
27	Later than five years	31
182	**Total**	**96**

The expenditure charged to the Comprehensive Income and Expenditure Statement in relation to these leases in 2021/22 was £93k (2019/20 £88k) 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:

31 Mar 2020 £000		31 Mar 2021 £000
876	Not later than one year	974
2,964	Later than one year and not later than five years	3,164
10,545	Later than five years	10,082
14,385	**Total**	**14,220**

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 2020/21

Note 37 - Termination Benefits

The Council terminated the contract of 12 employees in 2020/21 as part of the process of achieving required budget savings, incurring redundancy liabilities of £389,000. Payments were made and a liability amounting to £389,000 was incurred in 2020/21, total liabilities include additional pension strain of £99,000.

See Officers' Remuneration note 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 Pension Scheme		Discretionary Benefits arrangements	
	2019/20	**2020/21**	**2019/20**	**2020/21**
	£000	**£000**	**£000**	**£000**
Comprehensive Income and Expenditure Statement -				
Cost of services:				
Service cost comprising:				
* current service cost	4,835	3,493	-	-
* past service costs (including curtailments)	138	59	-	-
* (gain)/loss from settlements	-	-	-	-
Financing and Investment Income and Expenditure:				
* Net interest expense	673	9	-	-
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services	**5,646**	**3,561**	**-**	**-**
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)	7,886	(39,995)	-	-
* Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-
* Actuarial gains and losses arising on changes in financial assumptions	(24,150)	39,596	-	-
* Other experience	(13,443)	(1,885)	894	(1,120)
Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement	**(24,061)**	**1,277**	**894**	**(1,120)**
Movement in Reserves Statement				
* reversal of net charges made to the Surplus or deficit on the Provision of Services for post employment benefits in accordance with the Code	5,646	3,561	-	-
Actual amount charged against the General Fund Balance for pensions in the year:				
* employer's contributions payable to scheme	3,589	3,379	-	-
* retirement benefits payable to pensioners	-	-	286	259

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	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Present value of the defined benefit obligation	(160,970)	(201,011)	(5,348)	(4,207)
Fair value of plan assets	165,904	208,288	-	-
Net liability arising from defined benefit obligation	**4,934**	**7,277**	**(5,348)**	**(4,207)**

Reconciliation of the movements in the fair value of scheme assets

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening fair value of scheme assets	170,342	165,904	-	-
Interest income	4,089	3,797	-	-
Remeasurement gain/(loss):				
Return on plan assets excluding the amount included in the net interest expense	(7,886)	39,995	-	-
Other	-	-	-	-
Contributions from employer	3,589	3,379	286	259
Contributions from employees into the scheme	706	701	-	-
Benefits paid	(4,936)	(5,488)	(286)	(259)
Other	-	-	-	-
Closing fair value of scheme assets	**165,904**	**208,288**	**-**	**-**

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

	Funded liabilities Local Government Pension Scheme		Unfunded liabilities Discretionary Benefits	
	2019/20	**2020/21**	**2019/20**	**2020/21**
	£000	**£000**	**£000**	**£000**
Opening balance at 1 April	193,344	160,970	4,433	5,348
Current service cost	4,835	3,493	-	-
Interest cost	4,762	3,806	-	-
Contributions by scheme participants	706	701	-	-
Remeasurement (gains) and losses:				
Actuarial gains/losses arising from changes in demographic assumptions	-	-	-	-
Actuarial gains/losses arising from changes in financial assumptions	(24,150)	39,596	-	-
Other	(13,729)	(2,126)	1,201	(882)
Past service cost	138	59	-	-
Benefits paid	(4,936)	(5,488)	(286)	(259)
Other	-	-	-	-
Closing balance at 31 March	**160,970**	**201,011**	**5,348**	**4,207**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2019/20 £000	Fair value of scheme assets 2020/21 £000
Cash and cash equivalents	6,578	9,235
Equity securities by industry type:		
Consumer	14,738	21,638
Manufacturing	11,381	12,159
Energy and utilities	4,033	3,190
Financial institutions	18,458	18,871
Health and care	11,133	13,929
Information technology	17,698	28,906
Other	4,585	6,903
Debt securities:		
UK Government	3,766	2,645
Private Equity - All categories	3,797	3,319
Real estate:		
UK property	12,824	14,134
Overseas property	-	-
Investment funds and unit trusts:		
Equities	-	-
Bonds	54,931	70,092
Other	1,982	3,267
Totals	**165,904**	**208,288**

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 Hymans Robertson, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 1 April 2020. The principal assumptions used in their calculations have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
Long-term expected rate of return on assets in the scheme:				
Equity investments	(2.1%)	26.5%	-	-
Bonds	(2.1%)	26.5%	-	-
Property	(2.1%)	26.5%	-	-
Cash	(2.1%)	26.5%	-	-
Mortality assumptions:				
Longevity at 65 for current pensioners:				
* Men		22.1 years		22.1 years
* Women		24.4 years		24.4 years
Longevity at 65 for future pensioners:				
* Men		23.1 years		23.1 years
* Women		26.1 years		26.1 years
Rate of inflation		2.8%		3.3%
Rate of increase in salaries		3.4%		3.4%
Rate of increase in pensions (CPI)		2.9%		2.9%
Rate for discounting scheme liabilities		2.0%		2.0%

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 2021

	Approx. % increase to employer liability	Approx. monetary amount (£000)
0.5% decrease in Real Discount Rate	9.0%	18,617
0.5% increase in the Salary Increase Rate	1.0%	1,737
0.5% increase in the Pension Increase Rate (CPI)	8.0%	16,495

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 will be concluded by 31 March 2024.

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 £3.179 million for employer contributions to the scheme in 2021/22.

The weighted average duration of the defined benefit obligation for scheme members is 17 years for 2020/21.

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.

McCloud Judgement (Public service pensions age discrimination cases)

Arun District Council opted to make an allowance for the estimated impact of the McCloud Judgement on 31 March 2019. The previous allowance within the balance sheet will simply be rolled forward and therefore, included within the closing position at the Accounting Date.

No explicit additional adjustment for McCloud has been added to the current service cost for 2020/21 (or the projected service cost for 2021/22).

Guaranteed Minimum Pension (GMP) Equalisation / Indexation treatment (Lloyd’s ruling)

Arun District Council allowed for the impact of full GMP indexation in the calculation of 31 March 2019 funding valuation results. The Employer’s valuation results position is used as the starting point for the accounting rollforward calculations and therefore, an allowance for full GMP indexation was included within the closing balance sheet position of last year’s Accounting Date.

Guaranteed Minimum Pension (GMP) Equalisation / Indexation – historical transfers (Further Lloyd's ruling)

It is our understanding that this further ruling is unlikely to be significant in terms of impact on the pension obligations of a typical Employer. Further, the historic individual member data in order to assess such an impact at Employer is not readily available. As a result, Arun District Council has not made any allowance for this within the calculations at the Accounting Date.

Goodwin Judgement (Teachers Pension Equality discrimination case)

Whilst there is still uncertainty surrounding the potential remedy to the Goodwin judgement, we have carried out some approximate analysis across our LGPS clients to understand the potential impact of implementing a solution to correct the past underpayment of spouses' benefits. The approximate impact of this is very small for a typical Fund (0.1-0.2% of obligations). We, therefore, do not believe there are sufficient grounds to apply an additional adjustment to account for this in a standard Results Schedule, given the level of additional work and fees that would be involved for the Employer (and indeed the highly approximate nature of applying an unknown remedy).

Other court cases

Arun District Council are also aware of the following court cases which may also impact LGPS benefits in the future:

- Walker
- O'Brien

It is our understanding these are unlikely to be significant judgements in terms of impact on the pension obligations of a typical Employer. As a result and until further guidance is released from the relevant governing bodies in the LGPS, Arun District Council has not made any allowance for the potential remedies to these judgements or applied any changes to the existing LGPS benefits structure in our calculations at the Accounting Date.

Covid-19 pandemic

The main impacts of the Covid-19 pandemic and subsequent lockdowns on these accounting figures can be summarised as follows:

- Asset returns and values have followed market movements prompted by the pandemic and lockdowns, among other factors, which will, therefore, have an impact on the asset share value.
- Bond yields and inflation expectations have also followed market movements, which will, therefore, affect the obligations value.
- Life expectancy assumptions have not been updated:

  (a) The actuary has not updated the baseline longevity tables due to the lack of relevant mortality data and analysis from the period of the pandemic for the Fund or Employer.
  (b) The actuary has not amended the future longevity trends assumption for Covid-19 specifically as the data is not yet available to make an evidence-based assessment on the pandemic's impact on longer term expectations.

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 2021 the Council held £549k of unused "1 for 1 replacement" receipts. One of the approved priorities of the Council's Housing Revenue Account Business Plan is a significant new development programme and the implementation and phasing of this programme will be a key factor in determining whether or not the Council spends its unused receipts within the required time scale.

Note 40 – Going Concern

Section 1 – Underlying Principle

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

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

Section 2 – Current & Historical Financial Position

The Council's financial position was uncertain in the early months of 2020/21, having reported a surplus financial period ending 31 March 2020. This was significantly due to the impact of Covid-19 and the measures that were in place during that period. The Council's position has largely been stabilised with the assistance of Central Government funding and careful financial management. At the beginning of the pandemic, it was unknown how much support the Council would receive. This is summarised in the notes to the Financial Statements and below. The Statement of Accounts demonstrates the Council's financial position at 31 March 2021 to be stable.

Section 3 – Impact of Covid

The 2020/21 budget was set in February 2020 and set a budget that was drawing down £617k from our general fund reserves. The out turn is a balanced budget, with no withdrawal from general fund reserves.

The Council initially anticipated approximately £1.993m of net additional expenditure and an estimated loss in income of approximately £2.52m during 2020/21. There were noticeable reductions in income from planning, building control, licences and property & estates. However, a gradual return of most income streams did occur, although not to the levels previously budgeted for.

The impact of Coronavirus has had a significantly detrimental effect across the Council including businesses, taxpayers and other organisations. The Government has provided a range of support in the form of grants and relief. For the financial year 2020/21, the Council received a number of grants which included £51.095m support for businesses, £945k Council tax Hardship fund, £2.373m C-19 support grant, £6.081m service related and £1m Sales, fees and service support grant.

C-19 grants	**£'000**
Council tax Hardship fund	945
Business Rates grants	51,095
C-19 Support grants	2,373
Test and Trace	440
Service related grants	6,081
Sales, Fees and Charges	1,018
Total	**67,102**

In addition, there were a number of Business Rates grants schemes initiated by the Government to support Business throughout this pandemic. These were administered by the Council and majority of these grant schemes have now concluded. The balance unpaid of £9.3m is due to be repaid to Government and is taken into account in the cashflow forecast.

The Council is eligible for 75% Tax Income Guarantee (TIG) for the loss of income on Council Tax (£62k) and Business rates (£689k) as a compensation for the decrease in collection during 2020/21 due to C-19. This has been accounted for in 2020/21 accounts.

The Collection Fund had a deficit of £26m at 31 March 2021 – this is repaid by the precepting authorities over future financial years. Arun's share of the deficit of £9.3m is shown in the Collection Fund Adjustment Account and is due to be repaid over a period of three years commencing 2021/22 to 2023/24.

Business rates income for the year is estimated in January at the same time the budget is set. However, due to the coronavirus pandemic, the government gave a number of rate reliefs to businesses. The government compensates local authorities for the impact of any changes made due to the Business Rates Retention Scheme. This compensation (in the form of a section 31 grant) was paid to the billing authorities so that their cashflow was not negatively impacted. The Council was paid additional Section 31 grant of £19.3m for the extended retail relief scheme. The Council must repay unused funding to the government. This has already been adjusted for in the 2020/21 accounts and there is a creditor on the balance sheet for £11.6m.

During 2020/21 the Council decided not to pursue Trade Receivable bad debts during lockdowns and offered commercial customers extended payment periods. This has meant current bad debts for 2020-21 has increased to £387k from £286k the previous year but should reduce over time as the economy re-opens.

It is also worth noting that the Council has established a funding resilience reserve to mitigate any adverse financial consequences arising from the Fair Funding Review (£6.659m at 31 March 2021) and the reset of the retained business rates baseline. The Council, therefore, has additional resources to absorb any potential loss of business rate income.

Section 4 – Cash Position

The Council had a cash balance made up of Money Market Funds, Call Account and Bank Account of £12.4m and £54m invested in short term deposits at the end of May 2021**.** The Council also has £2m invested in the CCLA Diversified Fund and a further £5m invested in the CCLA Property Fund. It is extremely unlikely that the Council would need to redeem either the £2m invested in the CCLA Diversified Fund or the £5m invested in the CCLA Property Fund but it remains a possible option. Throughout the medium term the Council remains confident in its ability to maintain enough cash for its services but if required the £2m in the Diversified Fund could be accessed generally within two business days.

In a 'stressed' case scenario whereby income is constrained further in the event of any future waves and income recovery only very slowly, the Council has enough levels of reserves and investments that it would not run out of cash. This has been assessed up to March 2023 and in the unlikely event the Council did run in to cashflow problems, the Council is able to borrow money from its bank over the short-term.

Furthermore, the Council is likely to continue with its 2021/22 capital programme as these are long term projects over several financial years with budgets being drawn down from Earmarked Reserves. However, these reserves can be called upon if required.

Section 5 – Conclusion

These accounts have been prepared on a going concern basis, assessed up to 31 March 2023. The projection of a budget overspend in 2021/22 that is within the level of general useable reserves and as part of our Treasury Management Strategy, daily banking and forecasting is undertaken to maintain a minimum cash balance of £200k within the Council's main bank account.

Housing Revenue Account Income and Expenditure Statement

31 March 2020 £000		31 March 2021 £000
	Expenditure	
4,522	Repairs & Maintenance	4,525
4,734	Supervision & Management	4,765
133	Rents, Rates, Taxes and other charges	203
(1,235)	Depreciation, impairments and revaluation losses of non-current assets	(6,940)
67	Movement in the allowance for bad debts	58
8,222	**Total Expenditure**	**2,611**
	Income	
(15,551)	Dwelling rents	(15,614)
(440)	Non-dwelling rents	(426)
(889)	Charges for services and facilities	(501)
(3)	Other	0
(16,883)	**Total Income**	**(16,541)**
(8,662)	**Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement**	**(13,931)**
(82)	(Gains)/loss on sale of HRA Fixed Assets	(515)
1,594	Interest Payable and Similar Charges	1,420
(27)	HRA Interest and Investment Income	45
(7,176)	**(Surplus) or Deficit for Year on HRA Services**	**(12,981)**

Movement on the HRA Statement

31 March 2020 £000	Movement on the HRA Statement	31 March 2021 £000
(7,229)	Balance on the HRA at the end of the previous year	(7,240)
(7,229)	**Revised opening balance**	**(7,240)**
(7,176)	(Surplus) or Deficit on the HRA Income and Expenditure Statement	(12,981)
7,166	Adjustments between accounting basis and funding basis under statute	13,732
(10)	**Net (increase) or decrease before transfers to or from reserves**	**751**
(10)	(Increase) or decrease on the HRA for the year	751
(7,240)	**Balance on the HRA at the end of the current year**	**(6,489)**

31 March 2020 £000	Adjustment between accounting basis	31 March 2021 £000
1,235	Transfers to/(from) the Capital Adjustment Account	7,018
82	Gain or (loss) on sale of non-current assets	515
114	Contributions to or (from) the Pension Reserve	171
0	Transfers to/(from) the Accumulated Absences Account	(15)
5,735	Transfers to/(from) Major Repairs Reserve	6,005
0	Capital expenditure funded by the HRA	37
7,166	**Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year**	**13,731**

HRA Property, Plant and Equipment

Movements to 31 March 2021

	Council Dwellings	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**
Cost or Valuation					
at 1 April 2020	217,692	4,571	2,415	3,187	**227,865**
Additions	4,955	0	1,045	1,382	**7,382**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	84	0	0	**84**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	7,158	81	0	0	**7,239**
Derecognition – disposals	0	0	0	0	**0**
Derecognition – other	0	0	0	0	**0**
Reclassifications and transfers	2,215	(53)	0	(2,162)	**0**
Assets reclassified (to)/from Held for Sale	(261)	0	0	0	**(261)**
at 31 March 2021	**231,758**	**4,683**	**3,460**	**2,407**	**242,308**
Accumulated Depreciation and Impairment					
at 1 April 2020	0	(10)	(384)	0	**(394)**
Depreciation charge	(5,705)	(45)	(255)	0	**(6,005)**
Depreciation written out to the Revaluation Reserve	0	19	0	0	**19**
Depreciation written out to the Surplus/Deficit on the Provision of Services	5,705	19	0	0	**5,724**
Derecognition – disposals	0	0	0	0	**0**
at 31 March 2021	**0**	**(17)**	**(639)**	**0**	**(657)**
Net Book Value					
at 31 March 2021	**231,758**	**4,666**	**2,821**	**2,407**	**241,652**
at 31 March 2020	**217,692**	**4,561**	**2,031**	**3,187**	**227,471**

Movements to 31 March 2020

	Council Dwellings	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**
Cost or Valuation					
at 1 April 2019	215,808	3,824	2,351	0	**221,984**
Additions	1,655	0	202	3,187	**5,045**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	13	0	0	**13**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	667	734	0	0	**1,401**
Derecognition – disposals	0	0	(138)	0	**(138)**
Derecognition – other	(120)	0	0	0	**(120)**
Reclassifications and transfers	0	0	0	0	**0**
Assets reclassified (to)/from Held for Sale	(319)	0	0	0	**(319)**
at 31 March 2020	**217,692**	**4,571**	**2,415**	**3,187**	**227,865**
Accumulated Depreciation and Impairment					
at 1 April 2019	0	(4)	(270)	0	**(274)**
Depreciation charge	(5,547)	(38)	(149)	0	**(5,735)**
Depreciation written out to the Revaluation Reserve	0	2	0	0	**2**
Depreciation written out to the Surplus/Deficit on the Provision of Services	5,547	31	0	0	**5,578**
Derecognition – disposals	0	0	35	0	**35**
at 31 March 2020	**0**	**(10)**	**(384)**	**0**	**(394)**
Net Book Value					
at 31 March 2020	**217,692**	**4,561**	**2,031**	**3,187**	**227,471**
at 31 March 2019	**215,808**	**3,820**	**2,081**	**0**	**221,710**

The vacant possession value of dwellings within the Council's Housing Revenue Account as at 31 March 2021 was £702 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

31 March 2020 Total £000		31 March 2021 Total £000
	Balance at start of year:	
91	· Gross carrying amounts	91
(64)	· Accumulated amortisation	(73)
27	Net carrying amount at start of year	18
	Additions:	
0	· Purchases	37
(9)	Amortisation for the period	(18)
18	**Net carrying amount at end of year**	**37**
	Comprising:	
91	· Gross carrying amounts	128
(73)	· Accumulated amortisation	(91)
18	**Net carrying amount at end of year**	**37**

HRA Assets Held for Sale

Current 31 March 2020 £000		Current 31 March 2021 £000
0	Balance outstanding at start of year	0
	Assets newly classified as held for sale	
319	- Property Plant and Equipment	261
(319)	Assets sold	(261)
0	**Total Cash and Cash Equivalents**	**0**

Notes to the HRA Account

Housing Stock

31 March 2020		31 March 2021
No.	**Dwelling type**	**No.**
171	Bedsits	170
1,570	Flats	1,600
1,612	Houses / bungalows	1,612
2	Hostels	2
3,355	**Total**	**3,384**

Housing Revenue Account Capital Expenditure

31 March 2020		31 March 2021
£000		**£000**
	Capital investment	
1,857	Operational assets	6,388
3,187	Non-operational assets	1,031
5,044	**Total Capital Spending**	**7,419**
	Sources of funding	
0	Housing Revenue	(37)
(1,081)	Capital Receipts	(1,327)
(1,649)	Major Repairs Reserve	(1,823)
0	Acquired under finance lease	(947)
(2,314)	Unfinanced	(3,285)
(5,044)	**Total Sources of Finance**	**(7,419)**

Rent Arrears

Tenants' arrears at 31 March 2021 were £1,152k (previous year £1,150k). The provision for doubtful debts amounted to £201k (previous year £145k).

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.

31 March 2020				31 March 2021		
Business Rates £000	**Council Tax £000**	**Total £000**	**Collection Fund**	**Business Rates £000**	**Council Tax £000**	**Total £000**
			INCOME:			
	(112,920)	(112,920)	Council Tax Receivable		(117,530)	(117,530)
(38,353)		(38,353)	Business Rates Receivable	(12,700)		(12,700)
(169)	0	(169)	Transitional Protection Payments Receivable	(4)	0	(4)
	5	5	Reconciliation adjustments		(832)	(832)
(38,521)	**(112,916)**	**(151,437)**	**Total amounts to be credited**	**(12,704)**	**(118,362)**	**(131,066)**
			EXPENDITURE:			
			Apportionment of Previous Year Surplus/Deficit:			
(515)		(515)	Central Government	(156)		(156)
(103)	243	140	West Sussex County Council	513	758	1,271
(412)	46	(366)	Arun District Council	(125)	140	15
0	31	31	Sussex Police and Crime Commissioner	0	104	104

			Precepts, demands and shares:			
9,027		9,027	Central Government	17,544		17,544
19,859	84,787	104,646	West Sussex County Council	3,509	89,553	93,062
7,222	15,664	22,886	Arun District Council	14,035	16,444	30,479
0	11,638	11,638	Sussex Police and Crime Commissioner	0	12,443	12,443
			Charges to Collection Fund:			
8	241	249	Write-offs of uncollectable amounts	45	194	239
801	1,249	2,050	Increase/(decrease) in allowance for impairment	80	1,312	1,392
1,208		1,208	Increase/(decrease) in allowance for appeals	(892)		(892)
182		182	Charge to General Fund for allowable collection costs for non-domestic rates	182		182
37,277	**113,898**	**151,176**	**Total amounts to be debited**	**34,735**	**120,949**	**155,683**
(1,244)	**982**	**(262)**	**(Surplus)/Deficit arising during the year**	**22,031**	**2,587**	**24,617**
1,886	**(743)**	**1,143**	**(Surplus)/Deficit b/f at 1 April 2020**	**642**	**239**	**881**
642	**239**	**881**	**(Surplus)/Deficit c/f at 31 March 2021**	**22,673**	**2,826**	**25,498**

Notes to the Collection Fund

1. Council Tax Base

	2019/20	2020/21
Equivalent Valuation Band D properties in:		
Valuation Band A	3,290	3,256
Valuation Band B	7,051	7,119
Valuation Band C	14,334	14,718
Valuation Band D	13,267	13,580
Valuation Band E	11,287	11,418
Valuation Band F	7,777	7,888
Valuation Band G	4,161	4,161
Valuation Band H	484	495
Total Band D Equivalents	**61,650**	**62,635**
Allowance for non-collection 0.6%	(369)	(391)
Tax Base for year	**61,281**	**62,244**

2. Council Tax (total including parish average)

	2019/20	2020/21
Valuation Band A	£1,219.40	£1,268.56
Valuation Band B	£1,422.63	£1,479.99
Valuation Band C	£1,625.86	£1,691.42
Valuation Band D	£1,829.09	£1,902.84
Valuation Band E	£2,235.55	£2,325.69
Valuation Band F	£2,642.01	£2,748.55
Valuation Band G	£3,048.49	£3,171.40
Valuation Band H	£3,658.18	£3,805.68

3. General Statistics

	2019/20	2020/21
Rateable value of non-domestic properties at 31 March	£99.2m	£97.6m
Number of non-domestic properties at 31 March	4,961	4,939
Non-domestic rating multiplier: small businesses	0.491	0.499
Non-domestic rating multiplier: other	0.504	0.512
Average Council Tax for a Band D property	£1,829	£1,903

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 financial statements to recognise income or 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.

Business Improvement District (BID)

A business led partnership delivering additional services to local business by charging a levy on all business rates payers in addition to business rates.

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 contributions, 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 (CIES)

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.

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.

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 Contributions

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 (also known as bad 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 Investment

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.

MHCLG

Ministry of Housing, Communities and Local Government, the main Government department dealing with local government, housing and community issues.

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-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.

Payables (also known as Creditors)

Financial liabilities arising from a contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier. They are only recognised when the goods or services are delivered or received by the Council.

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.

Prepayment

An adjustment made in the financial statements for goods or services already paid which relate to the next financial year.

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.

Receivables (also known as Debtors)

Financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents. They are only recognised when goods or services have been transferred to the service recipient before the customer pays consideration or before payment is due.

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.

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.

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.

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 22 FEBRUARY 2022

REPORT

SUBJECT: Final Annual Governance Statement 2020/21

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager
DATE: January 2022
EXTN: 37561
AREA: Corporate Support

EXECUTIVE SUMMARY:

To present the final Annual Governance Statement for 2020/21 to the Committee for approval.

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to approve the final version of the Council's Annual Governance Statement for 2020/21

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 draft Annual Governance Statement was presented to the Committee and noted at its July 2021 meeting and provided to the Council's external auditors. The final version is presented for approval by the Committee at this special meeting considering the audited Accounts.

As members will be aware there has been a delay in the external audit being undertaken. In view of the longer than normal period between the draft and final versions of the AGS being presented to the Committee, some minor updates have been made. These are highlighted (in grey) – principally page 2 regarding the delay to the audit of the Accounts and pages 21-23 where updates have been included on some items now beyond the target dates included in the draft document.

The document is signed by the Interim Chief Executive Officer and the Leader of the Council and the approved version will accompany the Annual Accounts of the Council which will be published on the Council's website.

2.	**PROPOSAL(S):**
	It is proposed that the Committee approves the final version of the Council's Annual Governance Statement for 2020/21
3.	**OPTIONS:**
	N/A
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. Where appropriate, updates have also been obtained from management for the final version of the document.

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**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:

N/A

7. REASON FOR THE DECISION:

The Council's Annual Governance Statement is required to be approved by the Committee to accompany the audited Annual Accounts

8. BACKGROUND PAPERS:

The draft version was presented to the Committee and noted at its meeting held on 29 July 2021 (item / minute 205):

Arun District Council

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Annual Governance Statement

2020/21

ARUN
DISTRICT COUNCIL

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 1st April 2015, replace the equivalent Regulations 4(2) and 4(3) from the Accounts and Audit (England) Regulations 2011).

In 2020, the dates for preparation of the draft and final accounts were relaxed temporarily by the Government in light of the coronavirus crisis. While the Government considers its full response to the recommendations of the independent Redmond Review into the effectiveness of external audit and transparency of financial reporting in local authorities, the Accounts and Audit (Amendment) Regulations 2021 have changed the draft and final accounts publication deadlines for relevant bodies to 31 July and 30 September respectively, for the 2020/21 and 2021/22 accounting years.

However, as noted in the Redmond Review there are currently 'insufficient qualified individuals to deliver all audits at the appropriate time'. As at July 2021, the Council's external auditors have advised that this national resourcing issue means that they will not be able to complete all their audits by 30 September and are currently scheduling audit work for the Council in November meaning the audited Accounts will not be presented to the Committee until January 2022. An appropriate statement has been posted on the Council's website along with the unaudited draft Accounts in order to meet statutory requirements.

This document is the Council's Annual Governance Statement (AGS), relating to the internal control environment in place covering the 2020/21 financial year and the period to 31 July, during which the Council's Annual Accounts are prepared.

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.

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 (and again in the revised Constitution to take effect in May 2021). 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 revised Equality & Diversity Policy adopted in 2014 (to be reviewed in 2021). The Council's Children, Young People and Adults At Risk – Safeguarding Policy, including considerations arising out of the Care Act 2014, was agreed by Members in 2015 (and reviewed in 2017).

As required by central Government, the Council published its first gender pay gap figures in 2018 and this is now repeated annually. Staff and Unison were consulted on the results and an action plan has been progressed resulting in an improvement to the Council's position.

Both staff and Members are appraised of the standards of behaviour expected of them. The Council has incorporated in its Constitution a Members' Code of Conduct and a Protocol on Member / Officer Relations and also has an Employee Code of Conduct (with an updated version adopted in 2019).

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. In 2020 the Council began a review of this Code at the same time as the Local Government Association was consulting on devising a new model national member code of conduct. Arun decided to partially adopt the new LGA model national Member Code of Conduct in January 2021. 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 has also agreed and progressed changes to the Local Assessment Procedure and Local Hearings Procedure.

In 2020/21 the Council has continued 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 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 Chairs and their deputies receive briefings from Senior Officers on a regular basis, including financial, legal and technical advice.

At the District Elections held in May 2019, the political control of the Council changed and a decision taken move to a 'Committee' system of governance from May 2021. In preparation for this the Constitution has been reviewed and updated in respect of the future roles and governance processes.

Following the Annual Meeting of the Council on 19 May 2021, there will no longer be a Cabinet. There will be six 'service' committees and four regulatory committees reporting to Full Council, with their roles and responsibilities contained in the revised Constitution. (A diagrammatic representation of how the various stakeholders in the new governance process interact is included as Appendix 1a to this document).

However, since 2019 the political balance of the Council has been subject to further change and at the annual meeting on 19 May 2021 political control of the Council has once again changed. Going forwards, the Council's current priorities will be subject to review, although the binding decision to move to the committee system has still progressed.

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) (updated in 2019)
- 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 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 (OSC), including any that have been referred to the Local Government and Social Care Ombudsman.

In August 2018, the Regulator for Social Housing (RSH) determined that the Council had breached the Home Standard, specifically in relation to the failure to meet statutory Health & Safety requirements in respect of fire and water hygiene in relation to the Council's duties as a landlord to tenants and housing schemes. The Regulatory Notice was published by the RSH and advised by the Council to tenants and Members. The Council's senior management and Housing Department agreed an action plan with the Regulator which has been monitored on a monthly basis. This covers a range of H&S aspects, with data being collected / analysed and contractors being engaged to ensure that risks are assessed and appropriate action is taken to address any deficiencies identified. The Council continues to work with the Regulator through regular monthly updates, periodic telephone conversations and is working to agree a voluntary undertaking with them in 2021.

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 (current) Constitution also sets out what is defined as a 'key decision'. These are currently 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.

Under the new committee system, decisions will be taken by Full Council or delegated to an appropriate Committee or to officers. There will no longer be 'key decisions' contained in a Forward Plan or any decisions made by individual (Cabinet) 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 new Council believes that the future change in governance structure will improve the openness and transparency of the Council and its decision making and will also be looking at measures to engage better with the public. In 2020/21, the Covid crisis has meant that the Council has made much wider use of social media to inform and update residents.

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 currently being redeveloped to best serve the needs of the public. The Council's 5-year ICT Service Strategy has been supplemented by a new Digital Strategy 2019-2025 agreed in December 2019 and the Council will be looking at the best ways to provide more digital opportunities to make dealing with us easier, to improve customer service and increase efficiency.

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 have also met 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.

From March 2020, the coronavirus crisis caused the suspension of face-to-face and public meetings within the Council. Until May 2021 the Government relaxed legislation to allow meetings to be held remotely and the Council implemented Zoom technology to facilitate this. As meetings could not be held in public all Full Council, Cabinet and Committee meetings have been live streamed and recorded to allow public viewing. With Covid restrictions still in place, options for secure face-to-face or hybrid (part remote) meetings will be considered going forwards.

Decisions taken by the Council have continued to be documented and this has included urgent decisions taken early in the crisis by officers which were reported to Cabinet by the CEO at the first possible opportunity, as set out in the Constitution.

As at May 2021, the Government has not renewed the change to the Regulations which has allowed Council and committee meetings up to 6 May 2021 to be held virtually. As there are very limited venues to hold meetings in a Covid-secure environment, the Council held an extraordinary meeting on 12 May to consider the options for how meetings can be held until the Government confirms that social distancing will be completely relaxed and physical, public meetings can safely be held (current indications are that this is 19 July). Having taken legal advice, the Council agreed that there remain considerable health and safety issues and that it would continue to hold virtual meetings until such time as the Government confirms the relaxation of social distancing. For this period, Council and committee decisions will be advisory with the Chief Executive executing the decisions under his emergency powers, as contained in the Council’s Constitution.

The ModernGov meeting management system was implemented for use by the new Council in 2019 and will assist in the administration and provision of Council papers for Members, staff and the public. This will be developed further to link into the introduction of the new governance arrangements for the Council in May 2021.

The Council has adopted a Filming and Photographic Policy for key Council meetings, to meet transparency requirements contained in the Local Audit & Accountability Act 2014. Although the Council commenced live webcasting of Full Council and Development Control Committee meetings (and a wider range of meetings during the pandemic in 2020/21) the existing equipment / service requires replacement and options for this are under review.

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.

Members continue to be engaged with Sussex Police regarding concerns over policing, crime and anti-social behaviour in the District and the Cabinet Member for Community Wellbeing attends meetings of the Sussex Police & Crime Panel and regularly briefs the OSC. (The OSC meeting of September 2020 received a presentation on policing within the Arun District from the Arun & Chichester District Commander). They also consider the provision of health services and wellbeing throughout the District.

The Council's priority themes 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 and the general public. Following the May 2019 District Elections, the new Council has agreed a number of new strategic priorities which are being progressed.

The Council engages in public consultation exercises to inform the decision-making process, with a number undertaken recently in relation to current and future developments e.g. Public Spaces Protection Order for dogs in open spaces, plans to transform Place St Maur and Arun District design guide.

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 also 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 a Residents Survey Working Party of Members was established to review the methods used for carrying out the survey and achieve a wider response rate, with recommendations to be progressed in 2021.

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 2016, it was agreed to extend use of the existing three themes where the Council had identified that it could make the greatest difference to residents:-

- Your Council Services - delivering you the best we can afford
- Supporting you if you need help
- Your future.

In 2018/19, revised Corporate Plan and Service Delivery Plan indicators to support achievement of these themes was approved for the period 2018-2022. The indicators are to be reviewed and updated in 2021/22 for use from April 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.

Year on year, the Council has faced additional pressure to achieve cost savings without impacting the delivery of important front-line services. The Council's medium term financial strategy anticipates further funding reductions (e.g. as New Homes Bonus payments continue to reduce, the delayed Fair Funding Review and the business rate resetting) and this situation has been made worse due to the global Covid-19 crisis in 2020-21. However, the progress of the 2020 Vision initiative and careful financial management have meant the Council has been able to present a balanced Budget for 2021/22 that is better than its financial predictions. The financial situation is also affected by both reductions in income and increases in expenditure due to the current coronavirus crisis (although this has been minimised by Government funding where available) and the Council is considering ways to increase income and / or reduce costs to minimise the anticipated budget deficit in future years.

Value for money continues to be a key factor, with the Council looking to reduce costs and improve efficiency, with 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 Council's Property Investment Strategy, allowing the re-investment of a proportion of funds from land and property sales by the Council. Progress has been impacted by Covid-related priority work in 2020/21, but opportunities for redevelopment and/or disposal of a number of assets will be investigated and progressed in 2021.

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 and relevant strategies and policies have been reviewed and updated. 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 provided for this again in 2020/21).

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 District Council, West Sussex County Council and the University of Chichester. The Council's Chief Executive meets regularly with other CEOs on the West Sussex County Chief Executives Forum and West Sussex Chief Executives & Leaders meet periodically via the West Sussex Leaders Board. There are also regular liaison meetings with the three Town Councils (Arundel, Bognor Regis and Littlehampton) which involve the Chief Executive, the Leader and a senior officer from Arun District Council and officers and Members from the Town Councils.

The Council's CEO also has regular meetings with key business / third sector partners such as Butlins, Rolls Royce, Aldingbourne Trust, Age UK, etc.

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:-

- Arun Economic Development Strategy 2020-2025 (approved in 2019)
- Local Plan 2011-2031 - following a lengthy review, consultation and examination process, the final Local Plan was adopted by Full Council in July 2018)
  However, a review of the Local Plan has been agreed by Full Council as part of its altered priorities and the 'Visions and Objectives' for this are to be progressed in 2021/22
- Customer Services Strategy 2021-26
- Housing & Homelessness Strategy 2019-2021
- Leisure & Cultural Strategy 2013-2028 (recommendations for the future were agreed, following public consultation in 2012/13):-
    - the leisure contract transferred to Freedom Leisure from April 2016
    - construction of the 'Littlehampton Wave' has been completed, with the new swimming pool and leisure centre opening in late March 2019
    - further enhancements are to be made to the Arun Leisure Centre when funding is available
    - however, the Covid-19 crisis has particularly affected leisure provision with facilities required to close for several months and additional safety measures required when open. This has impacted the availability and capacity of facilities extending at least into 2021
- Bognor Regis regeneration:-
    - proposals for the improvement of Place St Maur have been approved with a large part of the funding for the project obtained from the Local Enterprise Partnership and designs are to be progressed. Options for the 'Sunken Gardens' are also being progressed and the Council continues to consider the options for future regeneration of the wider Regis Centre and Hothamton sites
    - a Members' seminar was also held to discuss regeneration presentations invited from interested parties that were held in February 2021. A Working Party will be set up to prepare a report regarding what type of regeneration activity the Council might want to pursue in Bognor Regis and any relevant procurement requirements and associated funding issues

  - the Council continues to liaise with local partners on improvements (e.g. the University of Chichester's new Tech Park) and to attract new businesses / investment (e.g. the Rolls-Royce technology & logistics centre)
  - West Sussex County Council has opened a new Creative & Digital Hub (The Track) at the Town Station.
- Enterprise Bognor Regis – planning permission was secured in 2019 by the landowners of the Saltbox site to provide approximately 30,520 square metres of new mixed-use employment floor-space and between 500 and 1000 new private sector jobs
- £3.5m of funding has been secured to deliver the Littlehampton town centre public realm improvements which are due to progress in 2021
- In March 2021 it was agreed that a working party be set up to look at preferences and priorities for bidding against the Levelling Up Fund that had recently been announced by the Government, for further projects in Littlehampton and Bognor Regis
- the Council has worked collaboratively with other local councils to progress the delivery of the Gigabit West Sussex project and led by WSCC (in liaison with the Department for Digital, Culture, Media and Sport) to install superfast gigabit fibre broadband to public buildings in the district
- progress of the Arun Growth Deal 2018-2023 – clearly identifying the Arun 'economic growth offer' and contributing the overall West Sussex Growth Plan being developed by WSCC
- the Council is now a member of the Greater Brighton Economic Board
- Capital Strategy 2022/22 to 2023/24 – this is an annual document required under CIPFA's revised Prudential Code and includes a rolling 3-year proposed capital investment programme approved by the Council.

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, offers grants to 'start-up' and small business in the Arun district. In addition to this, funding was obtained in 2018/19 for 'Journey To Work' and retail training projects in order to assist both those without employment and independent retailers, with further funding now extending this through 2021/22. A Pop-Up Shop initiative planned for 2020 to allow small and start-up companies to trial their products and services in a High Street setting prior to making further commitments into retail could not be progressed in light of the coronavirus crisis.

However, the Council has been instrumental in the delivery to eligible local businesses of over £50M of mandatory and discretionary Covid grants allocated by the Government. Plans are also progressing for further grant funding to be used for a number of further initiatives to provide wider business support between now and March 2022. Some Government funding has also been received and used during the crisis for designated measures in support of the community.

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 revised (from April 2020) Public Spaces Protection Order (PSPO) covering the consumption of alcohol in 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
- West Sussex Fuel Poverty Partnership
- Coastal West Sussex Partnership
- Rural West Sussex Partnership
- Coastal West Sussex & Greater Brighton Strategic Planning Board
- Greater Brighton Economic Board.

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. There will need 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. In accordance with amended regulations, the Council approved and published its first annual Infrastructure Funding Statement in 2020.

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. With the Covid-19 crisis in 2020-21, the Council worked through its staff and partners to minimise the impact on the delivery of key services.

Arun (and other Districts in the County) continue to liaise with WSCC in respect of potential changes in its support for waste and recycling initiatives and in a reduction in grant funding for charitable and support organisations. These changes will have a significant impact on the Council, both financially (loss of recycling credits, increased homelessness costs, etc.) and through additional burdens placed upon it. In 2021 in partnership with WSCC the Council is undertaking a 12-month food waste collection service trial.

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 (updated in 2020).

The new Council's strategic priorities now include an increased focus on environment and climate change issues and the Council formally declared a 'climate emergency' in January 2020. The Council has now appointed a Climate Change & Sustainability Manager to progress its aim for the Council to be carbon-neutral by 2030 and has contracted to obtain its electricity supply from renewable sources. At its meeting of September 2020, in response to a Motion from Members, the Council recognised that although much good ecological work is ongoing, further action is required and it agreed to review and update the bio-diversity policies within the Local Plan, informed by a new Bio-Diversity Action Plan 2021-2026 which is to be created.

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.

CIPFA has issued a new Financial Management Code which came into effect from April 2020, with full compliance required by 2021/22. This is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. An assessment against the new Code has been undertaken to confirm that the Council follows best practice.

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 published as agenda items on the Council's website). From 2021/22, reports will be provided to CMT and the Corporate Policy & Performance Committee.

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 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.

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 Law & Governance) has overall responsibility for legal compliance and works 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. The Council's Monitoring Officer left the Council at the end of August 2020 and interim arrangements using suitable external expertise have been put in place while the recruitment of a replacement progresses.

As reported in previous AGS documents, the Council has worked with staff and Members on its 2020 Vision 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.

However, it was always anticipated that there will be further funding reductions and additional burdens placed upon local government in the immediate future. The Council has considered these as far as possible when preparing its Financial Prospects Report (including its Medium-Term Financial Strategy), 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. The Council will continue with its commitment to seek ways to provide quality frontline services with the funds available.

From March 2020, the UK progressed its response at a national level to the global coronavirus crisis. Key Council services continued to be provided (either directly or remotely) initially in line with its contingency arrangements which then became a more standard way of working through 2020 and into 2021. The Council has generally been successful in maintaining its service provision and minimising the impact to residents despite the majority of its staff working away from Council offices, with the main areas affected being the provision of leisure services due to statutory closures, the closure of Reception areas and the provision of some non-emergency repair services to tenants.

Throughout the period of the crisis (which is now extending into the 2021/22 financial year) the Council has suffered a significant loss of income and incurred considerable additional expenditure. This has been reported to central Government and a significant proportion of this has been recouped through various Government compensation schemes and grant payments or by bidding for funding set up to assist local authorities through the crisis (e.g. the National Leisure Recovery Fund). With the approval of Full Council, some additional financial assistance has been provided to the operators of key Council contracts affected by the crisis.

The Council has distributed Government grant funding (both mandatory and discretionary) to local businesses and also provided some support to residents facing significant hardships for an extended period. In mid-2020, the Council set up a cross-party Covid-19 Recovery Working Party of Members to look at issues the Council would need to consider as it tries to recover economically from the pandemic, with Cabinet agreeing a number of proposals from the Working Party for officers to progress.

Members have been kept updated on the Council's activities and the financial impact through regular Council's Response to the Covid-19 Pandemic Situation reports provided by the CEO. There remains uncertainty as to how long the country will be faced with the impact of these issues (although a Government roadmap towards relaxation of restrictions, including re-opening businesses, is progressing in 2021). Some changes as a result of the crisis are likely to be permanent e.g. the increase in online shopping at the expense of town centres and businesses adjusting their operations to best fit with changing behaviours.

As already noted, the Council has been able to prepare a balanced Budget for 2021/22 and the predicted finances for future years has been reflected in the Financial Prospects 2020/21-2025/26 report presented to Members. In view of the anticipated future funding deficit and the changes in the way the Council has been operating efficiency and cost saving initiatives are being investigated – a report on The Council's Future Financial Issues has been provided to Members in 2021 and a project commenced on 'Future Ways of Working' which will consider working practices, etc. when all, or some, staff could resume working in Council offices or could continue working remotely from home.

Consideration continues to be given to the effective use of corporate properties to ensure that the Council's offices and facilities are fit for the future provision of services to the public, while incorporating 'cultural' changes progressing prior to Covid such as an increase in home working by staff and the provision of more services / information via digital channels.

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, as well as apprenticeship opportunities. All staff are required to participate in a continuous performance review process and an IT system specifically designed to assist with the recording of performance objectives and training and development needs has been implemented in 2021. Training and development in general, has had to be offered virtually which has limited the opportunities for personal development, particularly in relation to management and leadership skills. Training has mainly been focussed on working remotely and the wellbeing of staff during the pandemic, and this is likely to continue for the remainder of the year. More in-depth management training will be looked at again once restrictions have been relaxed.

Arun Councillors are elected on a 4-year term with the most recent elections held in May 2019. Elected Members to the Council have a Member Induction programme, which was reviewed and updated in advance of the 2019 District Council elections, and this includes specific training for Members in respect of the main quasi-judicial Committees. Members also have ongoing training that incorporates understanding the aims and objectives of the Council, understanding and dealing with current / new legislation and developing their personal skills. They also receive training from the Monitoring Officer on the Council's Member Code of Conduct, which is reported to the Standards Committee.

F. Managing risks and performance through robust internal controls and strong public financial management

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 CMT with additional reviews undertaken in 2020/21 as a result of the Covid-19 crisis. 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 is 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 consideration of risk in the documentation provided for approval by ICT, CMT and Members (where required). The Council has undertaken a substantial amount of work to review its data security policies, processes and staff training in order to meet the requirements of the General Data Protection Regulation (GDPR) / Data Protection Act 2018 and to minimise the risk / impact of cyber-attacks affecting the Council's IT network and systems. In 2018, the Council took part in the Local Government Association's (LGA) 'cybersecurity stocktake' exercise and, as a result, has received consultant assistance in assessing and documenting its cybersecurity risks and in identifying measures to improve its security, resulting in an improved assessment rating.

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 changes 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 2018).

As reported in previous years, the Council is progressing 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 2019/20 and also by the ongoing uncertainty regarding the financial impact of various requirements / proposals from proposed changes to planning legislation announced in the Queen's Speech 2021. A Housing Revenue Account (HRA) Business Plan has been agreed for the period 2017-2027 and is reviewed annually, which includes:-

- the planned additions of a further 230 properties between 2020/21 and 2031/32, 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 (this will be reviewed in line with the Business Plan)
- 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 (2016).

G. Implementing good practices in transparency, reporting and audit to deliver effective accountability

Under the current system, the work of the executive body and decisions made are currently 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. With the implementation of the committee system of governance from May 2021 there will no longer be a separate scrutiny committee / function, as it is held that the system 'self-scrutinises'. The Constitution does however contain provision for 'Referral and Recovery Procedures' allowing Members to require a decision be considered and taken by Full Council rather than by a committee.

There are also currently two Member Working Groups, which provide additional challenge and scrutiny to the executive:-

- 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. With the implementation of the committee system of governance from May 2021 no sub-committees (except Licensing) or Member Working Groups are included in the new structure – however, Full Council or service committees will be able to establish these where required (e.g. covering regeneration).

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 programme of audits, to provide assurance on the adequacy and effectiveness of the systems of internal control operating within the 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 (2019).

Internal Audit also carries out key financial audits of the Council's major systems as part of the International Standards on Auditing, in conjunction with the external auditors. The Audit & Governance Committee receive all of the external assurance reports and provide Minutes / reports to Full Council.

The Council chose to opt-in to the sector led body approach for 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 5-year period (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. The current scheme (based upon the recommendations of the Independent Remuneration Panel's 8th review) was adopted by Full Council in July 2019. A further interim review of the scheme was progressed in 2020 to support the decision of the Council to move to a committee structure from May 2021 and consider the change of allowances from Cabinet members to committee chairs and vice-chairs.

In June 2018, the Planning Advisory Service undertook a peer review of the Council's planning service and an action plan was progressed. However, as the Planning section has continued to struggle to secure sufficiently experienced planning officers Members agreed that a comprehensive external review of the Planning Service should be conducted to ensure that it is fit for the future to meet both statutory requirements and to support strategic priorities and objectives. An independent planning consultant completed the review in 2020 and recommendations are being progressed by officers and by a cross-party Planning Review Working Party of Members.

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 Internal Audit Manager'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:-

- 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 2021/22
- 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 2020/21 (to be presented to the Audit & Governance Committee on 29th July 2021 in conjunction with this document), which contains an assurance statement regarding internal control. However, it should be noted that for 2020/21 this includes a limitation of scope comment in accordance with CIPFA guidance
- 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 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.

Governance Risks Identified:-			
Issue	Mitigating Action(s)	Responsible Officer	Target Date
Issues identified from the Full Council meetings of 12 May 2021:-			
As at May 2021, the Government has not renewed the change to the Regulations which has allowed Council and committee meetings up to 6 May 2021 to be held virtually. Until such time as social distancing requirements are relaxed, the Council does not have appropriate facilities to enable it to hold physical meetings in a Covid-secure environment	The Council has considered the options going forwards and agreed it will continue to hold virtual meetings until such time as the Government confirms the relaxation of social distancing. For this period, Council and committee decisions will be advisory with the Chief Executive executing the decisions under his emergency powers, as contained in the Council's Constitution. (However, further options that may enable physical meetings to be held will also be investigated) **From late July 2021 the government moved to step 4 of the Covid-19 exit roadmap. Physical Council and committee meetings are now being held in the Council Chamber again, subject to some Covid restrictions. (Meetings are still being webcast / recorded)**	Chief Executive	July 2021
At the Annual Full Council meeting of 19 May 2021 political control of the Council has again changed. Going forwards, it is likely that the Council's current priorities will subject to review	Council management and officers will liaise with the new Council leadership in order to agree and progress current / new priorities for the Council	Corporate Management Team	Ongoing
New issues identified:-			
As at July 2021, the Council's external auditors have advised that this national resourcing issue means that they will not be able to complete all their audits by 30 September and are currently scheduling audit work for the Council in November meaning the audited Accounts will not be presented to the Committee until January 2022	The issue has been reported to the Chief Executive and Chair / Vice-Chair of the Audit Committee in advance of Ernst & Young presenting their Audit Planning Report to the July meeting of the Audit & Governance Committee A letter expressing the Council's dissatisfaction with the delay will be sent to both E&Y and PSAA Ltd. The Interim Group Head for Corporate Support will continue to liaise with the external auditors to ensure that the audited Accounts are presented to the	Interim Group Head for Corporate Support	Jan 2022

Governance Risks Identified:-			
Issue	Mitigating Action(s)	Responsible Officer	Target Date
	Committee at the earliest opportunity		
Issues identified in past Annual Governance Statements:-			
The Council made the decision to move to a 'committee' structure from May 2021. This has involved agreement as to the governance structure and processes to be implemented and significant revision to the Council's Constitution and decision-making processes. However, there remains a concern that this change could delay important Council decisions which can no longer be taken by individual (Cabinet) Members	The future governance arrangements for the Council have been considered in line with their decision. Structure and associated changes to the Constitution have been progressed in liaison with Members and agreed by Full Council prior to the new structure coming into force following the Annual Council meeting in May Decisions will be taken by Full Council or delegated to committees or officers. Officers will be required to plan ahead effectively to ensure that items are presented for decisions in line with the new committee structure / calendar	Group Head of Law & Governance / Corporate Management Team	May 2021 / Ongoing
From March 2020 the nation became affected by the global coronavirus crisis. This has had a significant impact on the finances and the ability of the Council and its key delivery partners to maintain key services through the various periods / levels of restrictions Local residents and businesses have faced significant hardships for an extended period, with the capacity of the health service, support organisations and national infrastructure being stretched	The Council has generally been successful in maintaining its service provision and minimising the impact to residents despite the majority of its staff working away from Council offices The Council has monitored central Government support initiatives and guidance and engaged with its key partners to best provide essential services. Through 2020-21 it has distributed considerable sums of Government funding to support local businesses and provided support and guidance to local residents Although a Government roadmap towards relaxation of restrictions, including re-opening businesses, is progressing nationally in 2021 there remains considerable uncertainty as to when a more normal situation will resume. The Council will therefore continue to consider its future finances and ways of working to best deliver services to residents	Corporate Management Team / Emergency Management Team	Ongoing

Governance Risks Identified:-

Issue	Mitigating Action(s)	Responsible Officer	Target Date
In August 2018, the Regulator for Social Housing (RSH) determined that the Council had breached the Home Standard, specifically in relation to the failure to meet statutory Health & Safety requirements in respect of fire and water hygiene in relation to the Council's duties as a landlord to tenants and housing schemes. The Regulatory Notice was published by the RSH and advised by the Council to tenants and Members	The Council's senior management and Housing Department agreed an action plan with the Regulator which has been monitored on a monthly basis. This covers a range of H&S aspects, with data being collected / analysed and contractors being engaged to ensure that risks are assessed and appropriate action is taken to address any deficiencies identified. The Council has worked with the Regulator through regular monthly updates and periodic telephone conversations. An update on progress was provided to the H&CSWG in July 2020. **<u>Update at December 2021</u> – Over the last 12 months the Council has continued to work closely with the RSH. The RSH is satisfied with the pace of progress being made and as suggested by the Regulator, the Council has commissioned a compliance health check which is currently underway. The results are expected towards the end of February 2022 and will be provided to the Regulator**	Director of Services	Mar 2022
The Council's Equality & Diversity Policy still requires review and update	Mandatory E&D training was provided to all staff in early 2020. A consultant will be engaged to conduct an in in-depth Equality & Diversity Survey and advise on a best practice action plan in 2021 **<u>Update at December 2021</u> – This has not yet progressed due to other priorities and it is hoped a consultant will be appointed to carry out the review in early 2022**	Group Head of Policy	Mar 2022
Partnership working and other innovative practices have been advised as increasingly important for the future, particularly as	An internal audit of partnerships, against best practice guidance (e.g. from CIPFA), was completed and reported to the Corporate Management Team	Group Head of Policy	Nov 2021

Governance Risks Identified:-

Issue	Mitigating Action(s)	Responsible Officer	Target Date
central government funding is likely to further decrease. Although the Council's major partnerships are known and progressed, there is no formal register of partnerships that enables the wider identification of outcomes, value for money or contribution to Council objectives, to ensure that such arrangements are of benefit	and Audit & Governance Committee in 2015. A plan of action was agreed at this time, but progress was delayed by Council restructures and other work priorities (including Covid in 2020). The priority of the Group Head of Policy is the conduct of the various elections required each year. Around this, work has progressed to agree a register of 'partnerships' with the various service areas, so that key governance arrangements may then be considered. This work will continue in 2021 and the Audit &Governance Committee will receive a further update on progress and the future workplan later in 2021		
The Council undertook a management and operational restructure in 2016-18 and the Council's operational risk registers (ORR) require review and update. 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	The format for operational risk registers for use going forwards needs to be agreed to allow them to be reviewed and updated (an external software product is not now to be used). 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. Consideration of new and changed risks e.g. resulting from the pandemic and provision of services with staff working from home will also need to be considered	Finance & Risk Manager / Governance & Risk Group	Ongoing
In recent years, Zurich Risk Engineering (ZRE) the risk consultancy arm of the Council's (former) insurers has been assisting the Council in a review of its Corporate Business Continuity Plan (BCP)	The ZRE-assisted work on a draft Corporate BCP and desktop testing of the Council's business continuity plans and preparedness continued in 2019/20. However, this was superseded by the need for the Council to work in line with national guidelines in response to the coronavirus crisis. Since mid-March 2020, service business continuity plans have been put	Emergency Management Team / Group Head of Neighbourhood Services	Ongoing

Governance Risks Identified:-			
Issue	Mitigating Action(s)	Responsible Officer	Target Date
	into operation, together with ICT infrastructure changes, with the vast majority of Council staff now working from home. The situation continues to be monitored by the Council's Emergency Management Team. The Corporate Business Continuity Plan has been endorsed by CMT and a service review of BCP's is progressing in 2021.		
Issues identified in the 2019/20 Annual Governance Statement that have now been resolved:-			
The Council's published Customer Access Strategy covered the period 2013-2017 and was developed before the Council's 2020 Vision initiative and restructure	The Customer Services Strategy 2021-2026 was adopted by Cabinet in March 2021, following work to progress the update with officers and Members	Group Head of Neighbourhood Services	March 2021
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	As has been advised previously, 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. The Head of Technology & Digital considered resilience in the ICT Service Strategy 2019-2023 adopted by Members. Further consideration of backups has been undertaken in 2020/21 including an inventory of systems and backups and restore testing from detached backups (i.e. tapes). The Head of Technology & Digital has also assessed the Council's recovery situation against lessons learnt from recent successful major cybersecurity attacks against other local authorities and briefed CMT on the issues	Head of Technology & Digital	Complete

Certification

Since March 2020, the global coronavirus pandemic has meant that the nation has faced an unprecedented situation, with no clear full exit date despite progress on the easing of restrictions in 2021. Through this period, the Council has strived to provide its key services to the District, manage its ongoing financial situation and to provide guidance and support to residents and business, while maintaining appropriate governance arrangements and control, and having regard to the safety and wellbeing of its staff and partners, residents and businesses.

It is our opinion that Corporate Governance, along with supporting controls and procedures, remained strong for the Council through 2020/21 despite the considerable pressure on the Council, staff and partners. Where governance risks have been identified, mitigating actions have been advised by appropriate Officers (as documented above).

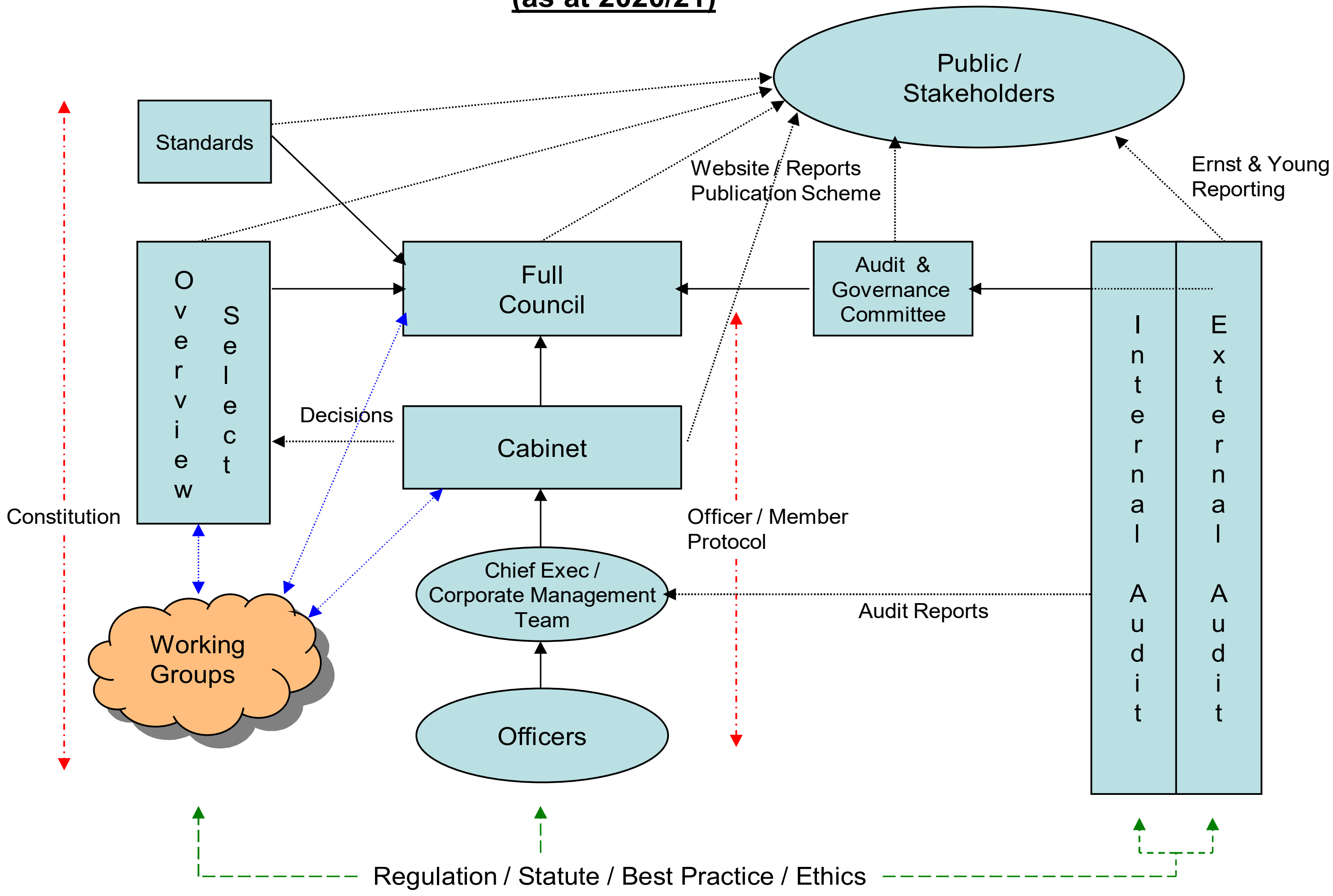
Signed:-

Councillor Shaun Gunner	James Hassett
Leader of Council	Interim Chief Executive

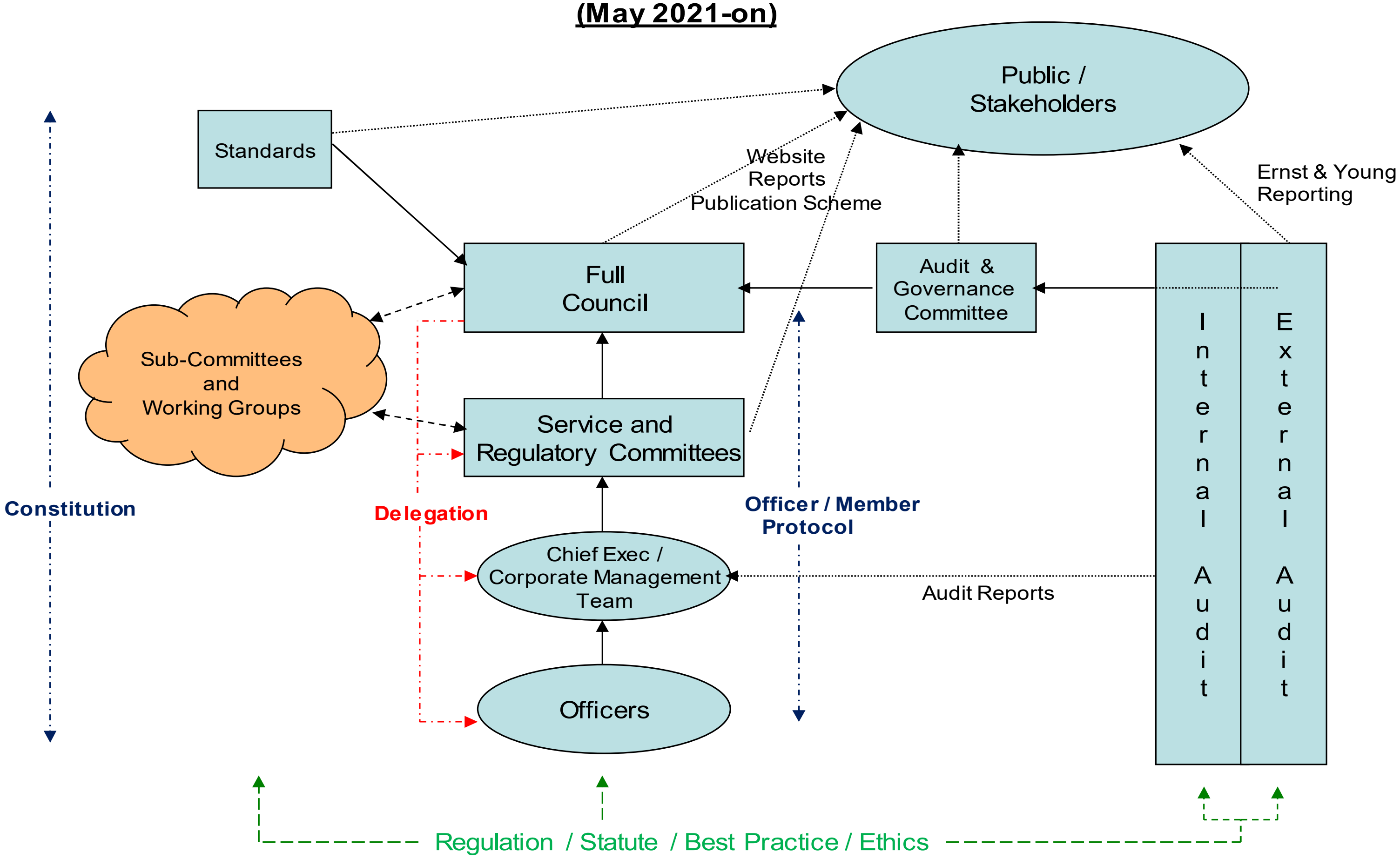
on behalf of the Members and Senior Officers of the Council

Dated:- February 2022

Arun District Council – Governance Structure (as at 2020/21)



Arun District Council – Governance Structure
(May 2021-on)



Appendix 2

ARUN DISTRICT COUNCIL

Corporate Governance Framework

Principles, Statutory Obligations and Organisational Objectives

- 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
- Meeting Statutory Obligations
- Meeting Organisational Objectives

Corporate Governance 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

Key Documents: Annual Review / Production

Annual Treasury Management Report
Capital Strategy
Corporate Plan
Counter-Fraud Report
External Audit Reports
Financial Prospects (Medium Term Financial Strategy)
Local Code Of Corporate Governance
Members' Allowances Scheme
Prudential Code
Revenue Budget
Risk Management Strategy
Statement Of Accounts
Strategic Risk Register
Treasury Management Strategy

Key Documents: Ad Hoc Review / Production

Anti-Fraud, Corruption & Bribery Policy
Arun Economic Development Strategy 2020-2023
Arun Growth Deal
Business Continuity Framework
Climate Change agenda
Constitution
Digital Strategy 2019-2025
Energy Efficiency & Fuel Poverty Strategy
Equal Opportunities Policies
Equality & Diversity Policy
Financial Regulations
Freedom Of Information Publication Scheme
Housing & Homelessness Strategy 2019-2021
HRA Business Plan 2017-2027
ICT Service Strategy 2019-2023
Local Development Scheme 2020-2023
Local Plan 2011-2031
Member Code Of Conduct
Officer Code Of Conduct
Officer Scheme Of Delegation
Performance Management Framework
Petitions Scheme
Record Of Decisions
Risk Management Framework
Safeguarding agenda
Strategic Council Targets For 2019/2023
Strategy For Leisure & Culture Provision
Whistle-Blowing Policy
'Working towards a Council Vision for 2015-2025
Your Council – Priorities 2017-2021

Contributory Processes / Regulatory Monitoring

- Annual Governance Statement
- Arun LEAP Project
- Arun Times
- Audit & Governance Committee
- Authority Monitoring Report
- Benchmarking
- Budgetary Reporting
- CMT / Service Assurance Statements
- Complaints Procedure
- Consultations
- Corporate H&S
- Corporate Intranet
- Corporate Website
- Customer Services Stategy
- Customer Satisfaction Surveys
- Data Transparency
- Declarations Of Interest
- Developer & Partner Charter+
- External Audit
- External Regulatory & Review Bodies
- Filming & Photographic Policy
- Gender Pay Gap Data
- Gifts & Hospitality Policy
- H&S Framework
- Infrastructure Funding Statement
- Internal Audit
- Joint Area Committees
- Job Descriptions
- Legislative Compliance
- Member / Officer Protocol
- Member Training
- Members' Independent Remuneration Panel
- Monitoring Officer
- Partnership Arrangements / Reporting (e.g. SAP, AWHP)
- Pay Profiling Scheme
- Personal Development Review Process
- Procurement Regulations
- Schedule Of Council Meetings
- Section 151 Officer
- Service Delivery Plans
- Staff Consultation Panel
- Staff Induction
- Staff Surveys
- Standards Committee
- Supplier Charter
- Task & Finish Groups
- Unison

NB – items noted may be in draft, at a consultation stage or subject to review / update

May 2021

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE ON 22 FEBRUARY 2022

SUBJECT: Approval of Accounting Policies 2021/22

REPORT AUTHOR: Clive Howey
DATE: 17 January 2022
EXTN: 01903 737558
AREA: Corporate Support

EXECUTIVE SUMMARY:

The report allows the Audit and Governance Committee to consider and approve the accounting policies that will be applied to the Statement of Accounts 2020/21 for approval by the Committee. At the time of writing this report the deadline for completion of the draft accounts is 31 July 2022 and approval of the final audited accounts 30 September 2022. Members will be updated if there are any changes to these dates.

RECOMMENDATIONS:

The Committee is requested to approve the accounting policies that will be applied to the Statement of Accounts 2021/22.

1. BACKGROUND:

1.1 It is the responsibility of the charged with governance (the Audit and Governance Committee) to consider and agree the accounting policies to be applied to the Statement of Accounts for the year ended 31 March 2022.

1.2 The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2022.

2. PROPOSAL(S):

2.1 The Accounting policies are the specific principles, bases and conventions, rules and practices applied by the Council in preparing and presenting the financial statements. The accounting policies included in Appendix 1.

2.2 It should be noted that it is recommended practice for Council's to only adopt Accounting Policies that are relevant to their Statement of Accounts. If during the preparation of the Accounts and external audit issues arise that require additions to the adopted policies the Committee will be updated of any subsequent changes

3. OPTIONS:

Accounting policies are a statutory requirement and therefore the Committee is requested

to approve the accounting policies that will be applied to the Statement of Accounts 2020/21.		
4. CONSULTATION:		
Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**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:

The Accounting Policies will be applied to the Statement of Accounts 2021/22.

7. REASON FOR THE DECISION:

To ensure that the Statement of Accounts is prepared using proper accounting practices as required by the Local Government Act 2003.

8. BACKGROUND PAPERS:

The code of Practice on Local Authority on Local Authority Accounting in the United Kingdom 2021/22 Accounts (CIPFA)

Prudential Code (CIPFA)

Note 1 - Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the ~~2020/21~~ 2021/22 financial year and its position at the year-end of 31 March ~~2021~~2022. 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 ~~2020/21~~2021/22, 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- 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~~ non-current 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 statue 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 the 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.

Where debtor balances for the above are identified as impaired because of the likelihood arising from a past event that payments due under statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the taxation and non-specific grant income line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

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 to the Accumulated Absences Account 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 Hampshire County Council on behalf of 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 pension's 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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The main classes of financial asset measured at:

- amortised cost
- fair value through profit of loss (PFPL).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost:

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

Expected Credit Loss Model:

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

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

Financial Assets Measure at Fair Value through Profit and Loss:

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes party to the contractual provision of the financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Fair value measurements of financial assets:

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

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

The inputs to the measurement techniques are categorised in accordance with three levels (see xxi Fair Value).

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

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.

Business Improvement Districts

A Business Improvement District (BID) scheme applies to Bognor Regis. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as an agent under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy

The Council has elected to charge a community infrastructure levy (CIL). The levy is charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the developments of the area.

The CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure, however, a proportion of the charges may be used to fund revenue 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 accrual 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.~~ Expenditure on individual items of less than £25k is assessed and where it is clear should not be capitalised, regarded as de minimis and charged to revenue.

Measurement:

Assets are initially measured at cost, comprising:

- 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 – straight-line allocation generally over 5 - 20 years
- infrastructure – straight-line allocation generally over 20 - 40 years
- HRA dwellings – depreciation is based on a calculation of the weighted average remaining useful lives of key components of each dwelling (structure, roof, kitchen, bathroom, boiler and externals).

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 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~~40% of the cost of new social housing, the remaining ~~70~~60% 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.

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 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.

xxi. 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 participates 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.

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE COMMITTEE ON 22 FEBRUARY 2022

SUBJECT: Provision of Internal Audit Service to the Council

REPORT AUTHOR: Carolin Martlew, Interim Group Head of Corporate Support and Section 151 Officer
DATE: February 2022
EXTN: 01903 737558
AREA: Corporate Support

EXECUTIVE SUMMARY:

This report considers options for the future provision of Internal Audit Services for the Council due to anticipated changes in circumstances.

RECOMMENDATIONS:

The Committee is requested to:

i. Confirm to the Corporate Support Committee that that Southern Internal Audit Partnership (SIAP) can be appointed as the Council's Internal Audit Service provider from 1 April 2022, being one of the possible options;

ii. Recommend to the Corporate Support Committee to approve the consequential changes in staffing arrangements to provide the Council with a suitably resourced Internal Audit service with effect from 1 April 2022.

iii. Delegate Authority to the Interim Group Head of Corporate Support, to agree the Internal Audit Plan for 2022/23 before 31 March 2022.

1. BACKGROUND:

Between 2011 and the present day, the Internal Audit Section staff level has been reduced from 3 full time equivalent (FTE) staff to 1. However, the budget has been maintained at 2.5 FTE giving a budget in 2021/22 of £134,660. In addition, £15,000 is in an earmarked reserve authorised by the previous Head of Corporate Support to potentially cover costs / overlap under any new arrangement. The Council's current Internal Audit Manager, the only remaining employee, had expressed an interest in retiring in 2019 and this was delayed once the pandemic arose. A partnership arrangement with Wealden DC was being explored (on corporate savings list). However, this solution did not address issues like the residual workload (e.g. Contract management, production of Annual Governance Statement and Strategic Risk Register etc.) The post of Finance and Risk Manager was recently filled (internally by Senior Auditor) with the view of that post taking on more of the Risk Management work carried out by the Internal Audit Manager.

Further discussions were held in 2019 with Wealden District Council who had expressed an interest in a collaborative working arrangement. This initiative was under consideration when the pandemic hit in March 2020, so was deferred. It is understood circumstances have now changed at Wealden and this is no longer available to the Council.

The pandemic further delayed these plans and left the provision of internal audit under resourced meaning the Internal Audit plan is not currently being delivered. The Internal Audit Manager has been employed by the Council for 13 years. It is therefore considered now would be an appropriate time to review the service provision for future years.

As mentioned above, the Internal Audit Manager has expressed interest in leaving the Council's employment. It is suggested that after 13 years' service, this should be supported.

The Council could run a recruitment exercise to replace the current Manager and fill the currently vacant posts. However, this is not recommended as other Councils report difficulty in recruiting and retaining Internal Audit staff. In addition, private sector companies offering internal audit services point to similar difficulties in recruitment and retention.

It is therefore recommended that the Council pursue a different means of delivering Internal Audit to mitigate the anticipated recruitment and retention difficulties. In addition, engaging a partner would reasonably be expected to provide certainty and increase resilience in the service. With a small team, any significant sickness absence can cause problems with service provision.

In addition, the lack of Internal Audit staff has resulted in a lower level of internal audit coverage than would reasonably be expected in recent years. This could result in external audit criticism and increased risk of system weakness, fraud and theft.

A change in the internal audit arrangements provides the Council with an opportunity of changing some fixed costs to variable cost as discussed by officers on 12 November 2021.

The Internal Audit Plan presented to Audit and Governance Committee on 25 February 2021 assumed 2 FTE staff and included 372 chargeable days. This was revised to 180 chargeable days at the committee meeting of 29 July 2021, recognising the decrease to 1 FTE member of staff. Obviously, reduction in plan provision does increase risk of issues such as fraud and misappropriation although this does remain unlikely. The Council must be seen to protect itself from such issues. In addition, CIPFA guidance lists one of the CFO's main functions in the Public Sector as providing a suitable and adequate internal audit service for the Council. It can be argued that the current situation does not meet this criterion.

2. PROPOSAL(S):

Because of the issues referred to above, it is proposed that the Council enter in to a partnership arrangement. It is likely the service would be provided by a Council orientated body (SIAP or ORBIS). SIAP are based in Hampshire County Council and provide a service for West Sussex County Council. ORBIS provide audit services to East Sussex County Council, Surrey County Council, Brighton and Hove Council and Horsham District

Council. Information received indicates that a full tender process would not be required if a partnership solution were pursued. In addition, SIAP is known to be a not for profit organisation.

This type of arrangement has been discussed with neighbouring Councils in recent years and was delayed or deferred for varying reasons. It is known that some potential providers may still be interested in providing the service to the Council in future. For expediency, this is the preferred method of future service provision. It can be implemented reasonably quickly. The Head of Corporate Support and Chief Executive are clear that an enhanced Internal Audit service should be implemented as soon as possible to offset the potential issues mentioned above.

The initial Internal Audit Plan for 2021/22 was in line with the business case for a proposed shared service arrangement in 2016 which anticipated 182 chargeable days from a manager and 192 from an auditor. This indicates this option was still in the thinking of staff at the time the Plan was drafted. It is understood that service sharing was supported by Members at that time. The shared service proposal would have to be handled sensitively and it is expected such initiative would be supported now.

It must be remembered that pursuing either outsourcing or partnership would require consultation with Unison as there are potential staff issues. However as there are two vacant posts and the current Manager has expressed a wish to leave the Council's employment this would be a likely formality in this case. Consultation has been undertaken with Unison.

Following research, officers are the view that entering a partnership with SIAP offers the most effective future option. SIAP is hosted by Hampshire County Council and was established in 2012. It has a diverse portfolio of 25 public sector clients and provides 7,500 audit days.

SIAP's emphasis is on quality, professionalism and value adding services. They have a range of in-house specialists covering IT, procurement and contract management. SIAP have been externally assessed as compliant with the Public Sector Internal Audit Standards.

It is recommended that the Council join as a partner as this would provide a number of advantages, rather than joining as a client where days are requested annually. As a partner, the Council would become a member of the Key Stakeholder Board which would result in the Council having a say in the future direction of the Partnership, business planning, performance reporting, resourcing and updates. The Head of Corporate Support and s151 officer, or their representative would represent the Council's interests by becoming a voting member of the Southern Internal Audit Partnership Key Stakeholder Board.

In addition, each partner can flex the audit days purchased to meet business needs, so additional days can be used when required as long as parity is restored over a three year period.

The Council would be required to enter into the Joint Working Agreement by way of a deed of accession. The Joint Working Agreement provides for a partner to pay an annual financial contribution, which is a proportion of the costs incurred by the SIAP in delivering audit services calculated on the number of internal audit days required by the Council. The composite day rate is reviewed annually and reflects pay costs based on national pay awards and annual increments and any increase or decrease in the operating costs of the joint service. Any other increase or decrease would be subject to the agreement of the SIAP Key Stakeholder Board.

Assuming the Council joins with effect from 1 April 2022, a commitment of five years (to 31 March 2027) would be made. Should the Council wish to exit the SIAP after that initial five year period, it is required to give 12 months' written notice in order to bring its participation to an end as of a financial year end.

If the recommendations are agreed, the Head of Corporate Support and S151 Officer will work with SIAP to agree the Audit Plan with effect from April 2022,

Suggested Approach
It is clear that the current situation is unsustainable. The following approach is therefore recommended:

- The Internal Audit Manager has confirmed his desire to end employment with the Council. Assuming an alternative delivery method can be arranged from 1 April 2022, a termination date of 30 September 2022 has been agreed in principle with the Manager. Between 1 April 2022 and 30 September 2022, the Manager's working hours will be decreased. This will allow the Manager to undertake duties outstanding from 2021/22 such as drafting the Annual Governance Statement and Code of Corporate Governance for 2021/22, preparing the Annual Internal Audit Report and Opinion for 2021/22 and the Counter Fraud Report for 2021/22;
- Consultation be undertaken with Unison on the proposal, to allow a response to be included with any formal report. This has been done;
- The Council's Procurement Support from Hampshire County Council has confirmed the suggested approach is within rules and procedures;
- Informal contact has been made with SIAP who have confirmed interest in assisting the Council.

The Interim Group Head of Corporate Support and Financial Services Manager have spoken to SIAP. A proposal for SIAP to provide the service to the Council is appended to this report. The main request SIAP have made is that the Internal Audit Plan for 2022/23 be drafted in consultation with them. The plan should be approved before 1 April 2022, so to achieve this, an additional meeting of this Committee will be required. A representative from SIAP is attending this Committee to offer a presentation and answer any questions Members may have.

3. OPTIONS:

The following options are available to procure the Internal Audit service in future:

Recruitment of Staff

As mentioned earlier, the Council can attempt to recruit staff. This is not recommended for the reasons outlined. In addition, although control of Internal Audit remains with the Council, the costs and risks of recruitment, lack of resilience and staff turnover outweigh the anticipated benefit.

Outsourcing

This would involve running a procurement exercise. The Council receives professional procurement support from Hampshire County Council who would manage the process. There are procurement framework arrangements available for this service but it is understood there is a low number of companies registered.

The benefits of competition would likely be:

- Costs probably driven down by the competitive process;
- Access to specialist staff;
- Resilience against staff shortage;

The disbenefits/risks would be:

- If contractor unsuitable, contract may be difficult to terminate (sound documentation and governance would mitigate against this);
- Tender may not result in a suitable response;
- Procurement rules may be unhelpful in the process.

Partnership/Service Sharing

Pursuing this option is again outsourcing the work. The attraction of this method is:

- It is likely the service would be provided by a Council orientated body (SIAP or ORBIS). SIAP are based in Hampshire County Council and provide a service for West Sussex County Council. ORBIS provide audit services to East Sussex County Council, Surrey County Council, Brighton and Hove Council and Horsham District Council;
- Information received indicates that a full tender process would not be required if this option were pursued.

4. CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify): Unison Trade Union	✓	

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	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:

Financial

The current budget for the service is £134,660 in 2021/22. An earmarked reserve balance of £15,000 is also available. Any proposed service provision will be met from existing budgets.

Legal

The provision of Internal Audit is a statutory requirement in local government as defined in the Local Government Act 1972. The Accounts and Audit Regulations 2015 (Regulation 5) require the Council 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".

The Council has delegated this responsibility to the Head of Corporate Support and Section 151 officer, under the auspices of the Corporate Support Committee.

Section 101 of the Local Government Act 1972 enables an Authority to make arrangements for the discharge of its functions by a Committee, Sub-Committee or officer of the Authority or by another Authority. Part 3 of the Arun Constitution(Responsibility for Functions) the Corporate Support committee has delegated authority to enter partnership arrangements under section 101 of the Local Government Act 1972.

As is outlined above, the Council will be entering into a Joint Working Agreement as a partner. This is an arrangement under section 101(5) of the Local Government Act 1972. The Joint Working Agreement regulates the relationship between all the partner authorities, including the governance structure, the roles and responsibilities of each partner Authority towards the other partner authorities, the financial contribution arrangements, information sharing protocols, withdrawal/exit provisions together with the scope of internal audit services.

Under the Local Government Act 1999, the Council is required to make arrangements to secure continuous improvements in the way on which it exercises its functions having regard to a combination of factors including, economy, efficiency and effectiveness. Committee can make the recommendations if Committee is satisfied that this will secure improvement of the internal audit service.

Human Resources

The current Internal Audit Manager has indicated his desire to leave the Council's employment and is agreeable to a flexible date. There are no further human resource implications. There are no TUPE implications as the Internal Audit Manager wishes to retire and all other posts in the Section are currently vacant.

7. REASON FOR THE DECISION:

To ensure the Council provides an adequate Internal Audit service in future following the planned leaving of the current Internal Audit Manager.

8. BACKGROUND PAPERS:

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Proposal:

Provision of Internal Audit Services
Arun District Council

Southern Internal Audit Partnership

Assurance through excellence and innovation

Neil Pitman

Head of Southern Internal Audit Partnership,
Hampshire County Council, The Castle,
Winchester, SO23 8UB

: neil.pitman@hants.gov.uk

: 07802 843562

Contents

1. Background & Context

The Southern Internal Audit Partnership (SIAP) was established in 2012. The Partnership is hosted by Hampshire County Council and is one of the largest providers of public sector internal audit in the region, employing approx. 50 audit professionals and delivering approximately 8,000 audit days across a diverse portfolio of 28 public sector organisations (Appendix 1).

The SIAP brings together the professional discipline of internal audit, pooling expertise and enabling a flexible, responsive and resilient service to our partner and client portfolio. To provide optimum benefits to our partners and clients, we work with management to improve their control environment, assisting in the achievement of their objectives. This is reflected through our ***'Vision'*** of:

'A collaborative Partnership delivering an innovative, customer focused service aligned to business needs and improved outcomes '

Our core values underpin the way we deliver our vision.

Customer focus – to remain aware of the needs and requirements of all of our stakeholders in providing the optimum customer experience.

Working together – to build trust, develop common understanding and take collective action to improve our service.

Improvement & innovation – to be a modern and motivated organisation providing an efficient, cost effective and value adding service.

Valuing all – to treat all colleagues and customers with respect and understanding, valuing equality and diversity in all of our pursuits.

Quality – at the heart of everything we do. Our measure of quality is customer satisfaction and our goal is to provide a service that meets or exceeds those expectations.

2. Services

To enable effective outcomes, the SIAP provide a combination of assurance and consulting activities. Assurance work involves assessing how well systems and processes are designed and operating, with consulting activities available to help improve those systems and processes where necessary.

Value for Money: examination of an organisation's activities to assess economy, efficiency and effectiveness.

Developing Systems: systems under development assessed to identify potential weaknesses in control and risk management.

IT: our IT auditors are experienced in covering all aspects of established and emerging technologies.

Fraud and Irregularity: we have a team of trained fraud specialists who carry out a range of reactive investigations and proactive fraud work as required by our customers.

Procurement & Contract Management: experienced in procurement and contract audit of complex capital projects and revenue contracts.

Risk Based Audit: risks and controls associated with the achievement of defined business objectives are identified, and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of management's objectives.

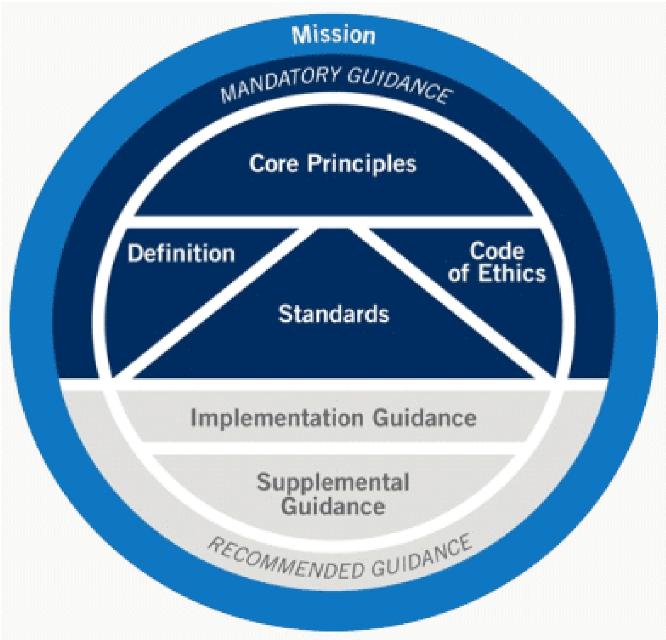
Analytics: analytical skills of the Southern Internal Audit Partnership used to support key aspects of organisational activities.

Consultancy & Advisory: provided through formal review and reporting or more informally through discussion, on the framework of control, risk and governance.

3. Quality

Our measure of quality is customer satisfaction and our goal is to provide a service that meets or exceeds those expectations. We aim to provide a service that remains responsive to the needs of our customers and maintains consistently high standards. Our most recent stakeholder survey (Audit Committee, Chief Executives, Directors, Key audit contacts) demonstrated an average client satisfaction level of 98% across all Partners.

Professional Standards – the SIAP have been externally assessed as compliant with the Public Sector Internal Audit Standards. In September 2020 the Institute of Internal Auditors were commissioned to complete an external assessment of the SIAP.



The assessment included review of a wide range of documentary evidence; interviews and surveys with representative stakeholders (including Chief Executives, Audit Chairs and S151 Officers) across existing partnering organisations in addition to members of the SIAP staff.

In considering all sources of evidence the External Assessment Team concluded:

'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'

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4. Working with our Partners

For Partnering organisations, a Strategic Lead will be allocated from the SIAPs Senior Management Team who will assume the Chief Internal Auditor role for the organisation. They will be supported by one of our Audit Managers who will be responsible for the day-to-day delivery of the internal audit plan. This arrangement provides a continuity of engagement for the organisation and an ability for SIAP to build an understanding of the Council's strategic and cultural objectives, values, governance, and risk.

The delivery of the internal audit plan will be undertaken through our multidisciplinary pool of auditors, all of which are appropriately qualified with a wealth of experience of auditing in a local government environment. As the need requires our specialist IT and Counter Fraud teams will fulfil work in specialist areas.

Over the last 18 months we have necessarily adapted our operating model to enable new and effective ways of working virtually, minimising the necessity of an onsite presence, and increasing the agility and timeliness of our audit reviews.

It is fully intended that as restrictions lift, we will look to retain the technological advancements in our use of collaboration software such as Teams and Zoom to optimise our service offering.

5. Ways of engaging with the Southern Internal Audit Partnership

Our current portfolio of clients engage with the SIAP either through on-boarding as a key stakeholder through accession to the Partnership Agreement or on a fixed term contractual basis. The form of engagement is at the discretion of the organisation and their individual needs and requirements.

Partnering (Key Stakeholder)

Local Authorities - the Southern Internal Audit Partnership is constituted under S101 (5) of the Local Government Act 1972. As such those Local Authorities joining the Partnership do so as a 'discharge of function' and therefore negate the requirement to undergo costly and resource intensive procurement / tendering exercises.

The underlying Partnership Agreement was refreshed in February 2018. Any accession to the Agreement requires an initial five-year commitment after which the Agreement runs in perpetuity. Should any organisation wish to withdraw from the Agreement following the initial five-year period or at any time in the future it may do so by serving 12 months written notice.

Partnering Governance - the governance of the SIAP affords each participating organisation membership of the Key Stakeholders Board. The Board meets bi-annually (minimum) and is constituted by each organisation's S151 officer (or representative), providing the opportunity to engage in performance reporting, business planning, resourcing, updates, and future direction of the Partnership. An overview of the governance structure is provided at Appendix 3.

An analysis of the benefits and risks associated with the option to 'partner' with the Southern Internal Audit Partnership are set out in Appendix 4.

Contracting

Whilst all local authorities that have joined the Southern Internal Audit Partnership have done so through the above 'discharge of function' we do have a number of clients that engage by way of a contract as part of a formal tender procedure for which the SIAP have submitted proposals and been assessed and awarded works against an open field of providers. Clients can also commission one off, individual reviews or a programme of work as required.

Typically, contracts are of a fixed term nature (generally three years with the option to extend for a further two). Due to the short(er) term nature of the arrangements the SIAP's rates are indicatively higher than those experienced by our 'partners'. This is partly to contribute to the risk of increasing capacity for a fixed term arrangement and further to contribute to our own costs of compiling tender submissions and managing client / contractor relationships.

An overview of benefits and risks associated with the option to 'contract' with the Southern Internal Audit Partnership are set out in Appendix 5.

6. Costing

The Southern Internal Audit Partnership charge against an agreed commitment of audit days (as per the Accession Agreement / contract) using a composite day rate.

The composite day rate is valid for all internal audit activity agreed as in scope i.e. if IT audit and fraud and irregularity audits are included as part of the audit needs to be delivered by the SIAP, these will be charged at the composite rate. If, however, such provision is excluded from the accession, it can still be commissioned from the SIAP, however, this will be charged at our professional rate for specialist services.

There is provision as a partner to flex agreed audit days to meet business needs i.e., if there is agreed provision of 400 days and in year one 430 days are required, there will be no additional charge to the partner organisation as long as parity is restored over a three-year period i.e. 385 days in years two and three. If this cannot be achieved within the three-year period, the standard day rate of £350 will be charged for excess days provided. There will always be an opportunity to increase/ decrease audit days through appropriate governance routes within the Partnership Agreement.

In accordance with the partnership agreement the composite rate will be reviewed annually and any increase over the previous year shall be calculated based on pay costs (National Pay Awards). The rate will be formalised with a fee letter.

Partnership Rates

Indicative composite day rate	£325
Additional standard audit day rate	£350
Additional specialist audit day rate (IT / Fraud)	£400

The above table reflects 2020-21 day rates and are subject to annual review

Contract Rates

Contract rates, should this be a desired direction of travel, will be discussed and agreed on an individual basis or submitted as part of a formal tender exercise (as a guide these should be expected to be approx. 20% - 25% higher than the composite partnership day rate).

7. References

To assist in your process of 'due diligence' a list of referees are included from across our local authority partners.

Organisation	Contact	Designation	Email
West Sussex County Council	Katharine Eberhart	Director of Finance & Support Services	Katharine.Eberhart@westsussex.gov.uk
Hampshire County Council	Carolyn Williamson	Chief Executive	Carolyn.williamson@hants.gov.uk
East Hants District Council & Havant Borough Council	Gill Kneller Lidia Morrison	Chief Executive S151 Chief Finance Officer	Gill.Kneller@easthants.gov.uk Lydia.Morrison@easthants.gov.uk
Mole Valley District Council	Nick Gray	Director of Finance & Deputy Chief Executive	Nick.gray@molevalley.gov.uk

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8. Conclusion

The Southern Internal Audit Partnership would welcome the opportunity of working with colleagues at Arun District Council in the future provision of their internal audit services and in forming a mutually beneficial collaboration to meet both immediate and future challenges.

Should you require any additional information to further inform your future direction of travel please do not hesitate to contact Neil Pitman, Head of Southern Internal Audit Partnership (neil.pitman@hants.gov.uk).

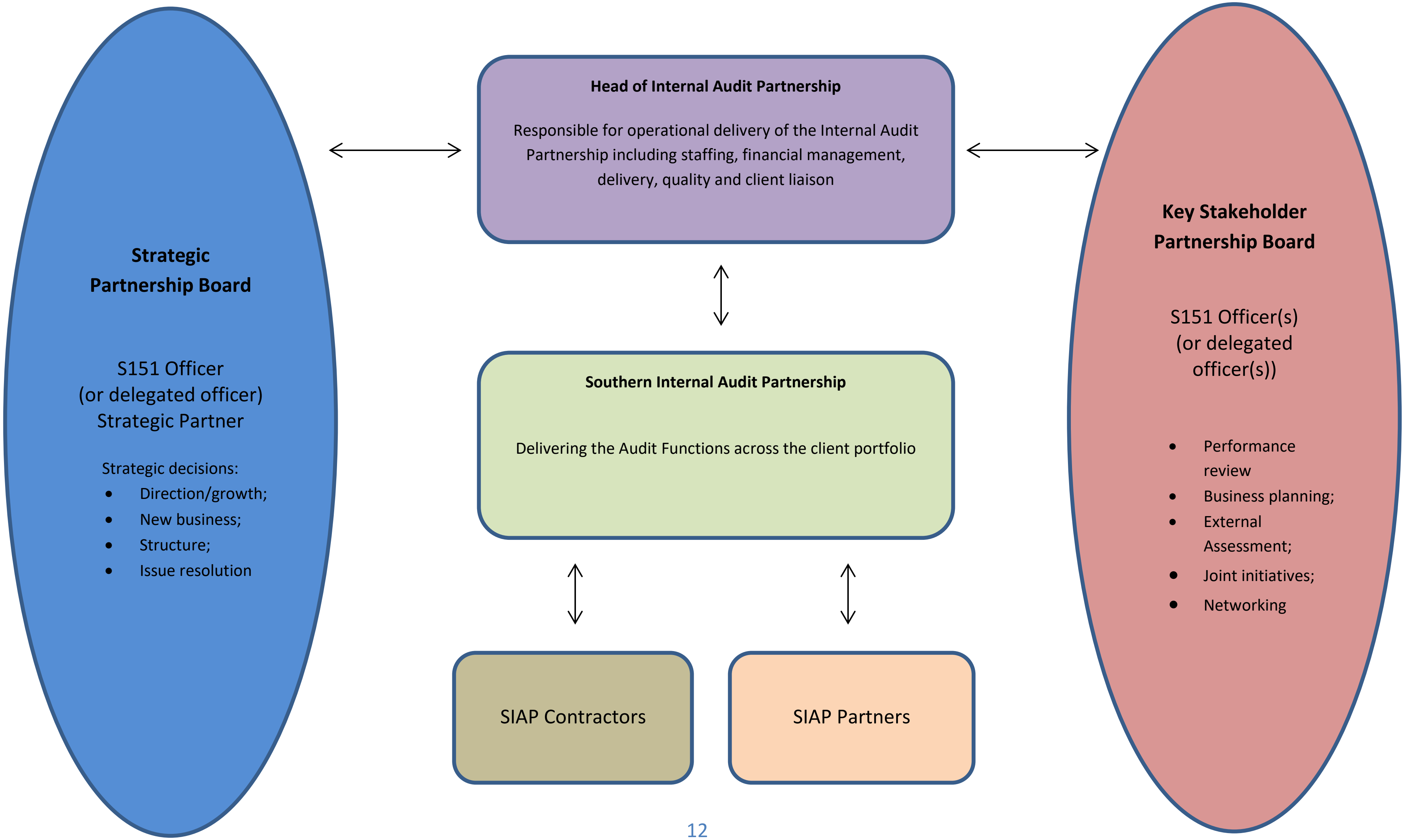
Appendix 1

Southern Internal Audit Partnership Portfolio

Strategic Partner	Key Stakeholder Partners	Contracted Clients
• Hampshire County Council	• West Sussex County Council • Havant Borough Council • East Hampshire District Council • Winchester City Council • New Forest District Council • Mole Valley District Council • Reigate & Banstead Borough Council • Tandridge District Council • Epsom & Ewell Borough Council • Hampshire & IOW Fire & Rescue Service • West Sussex Fire & Rescue Authority • Hampshire Office Police & Crime Commissioner • Hampshire Constabulary • Sussex Office Police & Crime Commissioner • Sussex Police Force • Surrey Office Police & Crime Commissioner • Surrey Police Force • New Forest National Park Authority	• Waverley Borough Council • Hampshire Pension Fund • West Sussex Pension Fund • Highbury College • Isle of Wight College • Portsmouth College • Lymington & Pennington Town Council • Ringwood Town Council • Chichester Harbour Authority

Appendix 2

Southern Internal Audit Partnership - Governance Structure



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Southern Internal Audit Partnership
Assurance through excellence and innovation

Appendix 3

Benefits / Risks of Partnering with the SIAP

Benefits	Risks
• No resource intensive and costly tendering • High level of sector experience / knowledge • Cost - lower rates as Not for Profit & longer term commitment • Public Sector to Public Sector relationship • Shared best practice • Specialist auditors (fraud / IT at composite rate*) • Resilience / capacity • Compliant with Standards • Independent • Fresh approach • Flexibility • Fully trained / qualified workforce • Effective and inclusive governance arrangements • Budget assurances – through ability to flex day requirements in year to meet business need (parity to be restored over the course of three years) • Networking with peers • Shared training opportunities (Members) • Advisory / consultancy services • Receipt of quarterly information bulletin • Industry / sector insight	• Some initial dilution of local knowledge (applicable to any new provider) • Business acceptance (applicable to any new provider)

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Appendix 4

Benefits / Risks of Contracting with the SIAP

Benefits	Risks
• Competitive rate • Specialist auditors • Resilience / capacity • Compliant with Standards • Independent • Fresh approach • High level of sector experience/ knowledge • Fully trained / qualified workforce • Availability of advisory / consultancy services • Ability to formally test the market • Shorter term agreement should the service not meet organisational needs*	• Resource intensive and costly procurement process • Some initial dilution of local knowledge (applicable to any new provider) • Business acceptance (applicable to any new provider) • Day rates will be greater than those available in the partnering model • Reduced ability to flex audit resource at no additional cost over financial years • Requirement for client-side administration

ARUN DISTRICT COUNCIL

REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 22 February 2022

REPORT

SUBJECT: Housing Fraud Update Report

REPORT AUTHOR: Johanne Batty, Neighbourhood Services Manager
DATE: January 2022
EXTN: 37221
AREA: Residential Services

EXECUTIVE SUMMARY:

At the Audit and Governance Committee meeting on 29 July 2021 the Committee requested that an update report be provided to the Committee on Housing Fraud.

RECOMMENDATIONS:

Audit and Governance Committee are asked to note the content of this report.

1. BACKGROUND

1.1 At the last Audit and Governance meeting members asked for an update on Tenancy fraud to be bought to this meeting.

1.2 This post was vacant during 2020 when the Officer changed roles within the Council.

1.4 The new Fraud Investigator officer has been in post since 1 June 2021.

2. Fraud Investigation activity 1 June 2021 - 31 December 2021

Number of referrals received	78
Properties successfully obtained back	1
Sole to joint applications refused	1
Mutual Exchanged applications refused	2
Tenancy succession applications declined	3
Number of cases referred for legal action (awaiting Court date)	1
Financial saving to the Council (including £2324 Housing Benefit and Council Tax Benefit reclaimed) (7 x £42k + £2324)	£296,324*

*Tenancy Fraud Forum have published figures that estimate the average cost of each detected tenancy fraud to the national purse is £42k.

3. JOINT WORKING

3.1 The Fraud Officer has developed close joint working with banks and building societies to obtain information under the PoSHFA legislation, NAFN (National Anti-Fraud Network), West Sussex County Council and Local Authorities and is an active member of The Tenancy Fraud Forum and the Sussex Fraud Officers Group.

4. RESIDENT ENGAGEMENT

4.1 To assist in raising the profile of Tenancy Fraud and the Councils commitment to investigating it a two-page article detailing what constitute tenancy fraud, how to report it together with case studies was published in Residential Services Resident Newsletter in December 2021. By educating residents about the impact of tenancy fraud and publicising successful outcomes we hope to encourage more reporting.

5. FUTURE SERVICE DEVELOPMENT

5.1 We continue to focus on proactive work to detect tenancy fraud and developing a programme of communication both internally and externally to support the role of the fraud officer.

2. PROPOSAL(S):

2.1 Members are asked to note the content of this report.

3. OPTIONS:

3.1 This report is information only.

4. CONSULTATION:

	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify) Members of the Housing and Customer Services Working Group		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)		**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:

N/A

7. REASON FOR THE DECISION:

N/A

8. BACKGROUND PAPERS:

Audit & Governance Committee Meeting Minutes - 29 July 2021

ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE ON 22 February 2022

REPORT

SUBJECT: Treasury Management Strategy Statement and Annual Investment Strategy 2022/23

REPORT AUTHOR: Sian Southerton – Senior Accountant (Treasury)
DATE: January 2022
EXTN: 01903 737861
AREA: Corporate Support

EXECUTIVE SUMMARY:

The purpose of this report is to present the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) 2022/2023 to 2024/2025 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council (9 March 2022).

RECOMMENDATIONS:

The Committee is requested to recommend Full Council to:

(i) Approve and adopt the Treasury Management Strategy Statement for 2022/23 to 2024/25.

(ii) Approve and adopt the Annual Investment Strategy for 2022/23 to 2024/25, including the addition of new counterparties; JP Morgan Chase Bank and National Australia Bank.

(iii) Approve the Prudential Indicators within the TMSS and AIS for 2022/23 to 2024/25 as contained in appendix 1 and the body of the report.

1. BACKGROUND:

The Council is required as part of its governance to consider certain reports on Treasury Management.

As a minimum, three main reports should be presented each year, incorporating a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Committee before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

- **Prudential and Treasury Indicators and Treasury Strategy** (this report) - The first and most important report is forward looking and covers:
    - the capital plans (including prudential indicators) (2.0);
    - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time) (2.4);
    - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators (3.0); and
    - an investment strategy (the parameters on how investments are to be managed) (4.0).
- **A Mid-Year Treasury Management Report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. The Audit and Governance Committee will receive a mid-year report at its November meeting prior to approval by Full Council.
- **An Annual Treasury Report** – This is a backward looking review document providing details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy which the Audit and Governance Committee will receive at its July meeting prior to approval by Full Council.

2. PROPOSAL(S):

This report has the Treasury Management Strategy for 2022/23 appended. The strategy for 2022/23 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC (Department for Levelling Up, Housing and Communities) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

3. OPTIONS:

The Treasury Management Strategy is legislative and under the Local Government act 2003 and therefore the only option is to recommend the Treasury Strategy be recommended for approval by Full Council.

4. CONSULTATION:

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)	✓ Treasury Advisors	

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**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:

<u>Financial</u>

The Treasury Management Strategy will inform borrowing and investment decisions. In addition, it is viewed as sound governance to have a Strategy in place.

7. REASON FOR THE DECISION:

To ensure that the Treasury Management Strategy 2022/23 is considered before approval by Full Council. The decision sets statutory limits and safeguards the Council against financial loss.

8. BACKGROUND PAPERS:

- [The Local Government Act 2003]
- CIPFA'S Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (2017) *(Link not available as copyright)*
- The Prudential Code for Capital Finance in Local Authorities (2017)
- Cipfa Treasury Management Guidance notes (2018) *(Link not available as copyright)*
- DLUHC's Guidance on Local Government Investments ("the Guidance")

Arun District Council

Treasury Management Strategy Statement and Annual Investment Strategy 2022/23

Arun District Council
Treasury Management and Investment Strategy 2022/23

1 Introduction

2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework;-

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 (Treasury Management Practice) to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals soley with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report.

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

"*The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

It will be important to keep the Treasury Management Strategy under review during the year due to the current economic climate. Government policy and guidance may need to change in light of the costs and challenges of Covid-19.

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the Full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

- **Prudential and Treasury Indicators and Treasury Strategy** (this report) - The first and most important report is forward looking and covers:

  - the capital plans (including prudential indicators) (2.0);
  - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time) (2.4);

- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators (3.0); and
- an investment strategy (the parameters on how investments are to be managed) (4.0).

- **A Mid-Year Treasury Management Report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. The Audit and Governance Committee will receive a mid-year report at its November meeting prior to approval by Full Council.

- **An Annual Treasury Report** – This is a backward looking review document providing details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy which the Audit and Governance Committee will receive at its July meeting prior to approval by Full Council.

1.3 Treasury Management Strategy for 2022/23

The strategy for 2022/23 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

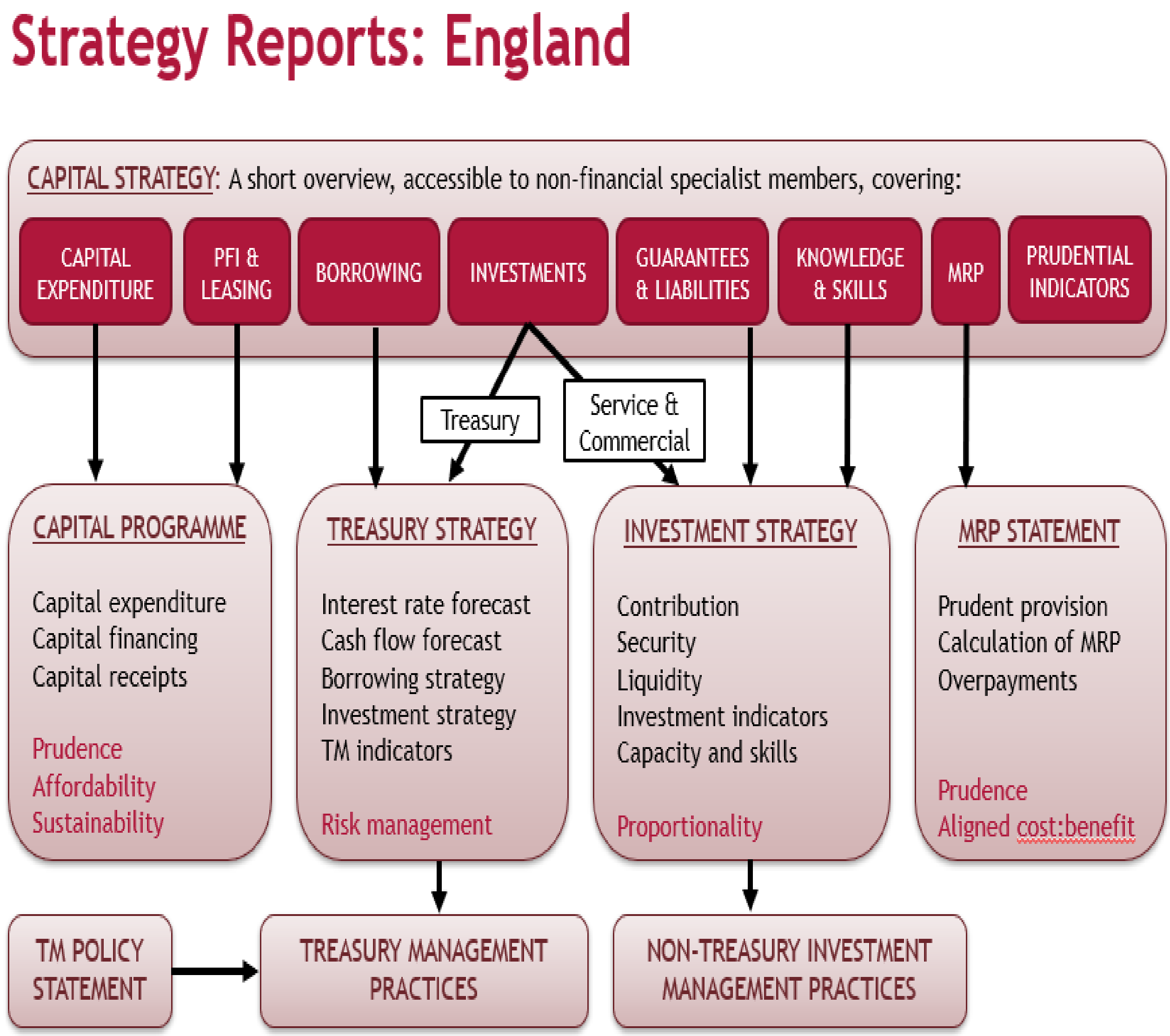
Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC (Department for Levelling Up, Housing and Communities) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

A Voluntary Repayment Provision (VRP) is sufficient as Arun’s external debt is all HRA. However, there is a possibility that the Council may wish to borrow for General Fund purposes at some point in the future.

The diagram below shows how Capital expenditure affects the Treasury Management Strategy



1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Accordingly, all members were invited to attended a workshop presented by Link Group (Treasury advisors) explaining the roles and responsibilities of elected members and giving them an economic update. The last session was held on 13th July 2021 where 14 members attended.

The training needs of treasury management officers are reviewed periodically and senior officers attend seminars at least once a year. Since Covid 19 there have been more bite size webinars from various organisations, which are attended by Treasury officers regularly.

1.5 Treasury management consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of external providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions) and 1 commercial type investment (East Preston Depot).
Any further commercial type investments will require specialist advisers in relation to this activity.

2 <u>The Capital Prudential Indicators 2022/23 to 2024/25</u> (Appendix 1)

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

2.1 Capital Expenditure.

This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Council's capital expenditure is considered as part of the budget setting process and a report for approval is going to Full Council on 23rd February 2022.

Currently Arun's only borrowing relates to the HRA self-financing settlement. However, the Council has a significant capital programme including HRA acquisition/new builds and smaller projects such as work to carparks, public convenience's, cemeteries, and some infrastructure projects. Much of this programme will be funded from capital receipts and revenue resources but it is possible that additional borrowing will be required at some point in the future, however the source has not yet been identified.

The need to borrow is reviewed annually as part of the Treasury Management Strategy and budget setting process and will be dependent on the HRA Business Plan and the Capital programme.

The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need;

Capital Expenditure	Actual 2020/21 £'000	Current Estimate outturn 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000
Non HRA	2,930	3,851	3,939	2,446	2,142
HRA	6,472	8,488	8,351	6,560	6,774
HRA settlement	-	-	-	-	-
Total	**9,402**	**12,339**	**12,290**	**9,006**	**8,916**
Financed by:					
Capital receipts (1-4-1)	1,589	1,194	1,500	0	0
Capital grants	2,668	3,109	1,400	1,400	1,400
Capital reserves	1,823	3,051	5,336	4,430	5,244
Revenue	37	756	567	1,276	972
	6,117	**8,110**	**8,803**	**7,106**	**7,616**
Net financing need for the year	**3,285**	**4,230**	**3,487**	**1,900**	**1,300**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council does not have any PFI schemes within the CFR but does have finance leases.

The Council is asked to approve the CFR projections in Appendix 1 also shown below:

CFR at 31 March	**Actual 2020/21 £,000**	**Current Estimate 2021/22 £,000**	**Estimate 2022/23 £,000**	**Estimate 2023/24 £,000**	**Estimate 2024/25 £,000**
Capital Financing Requirement					
General Fund	(4,223)	(4,442)	(3,655)	(3,742)	(3,830)
HRA	52,973	49,347	54,475	61,852	61,010
Total CFR	**48,750**	**44,905**	**50,820**	**58,110**	**57,180**
Movement in CFR	**394**	**(3,845)**	**5,915**	**7,289**	**(930)**

Movement in CFR represented by					
Leasing arrangements (GF)	0	0	0	0	0
HRA unfinanced / Internally financed	3,285	0	7,565	8,913	1,300
Leasing arrangements (HRA)	947	0	0	0	0
Repayments	0	0	0	0	0
Less MRP/VRP	(3,837)	(3,845)	(1,650)	(1,624)	(2,230)
Movement in CFR	**394**	**(3,845)**	**5,915**	**7,289**	**(930)**

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	**2020/21 Actual £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Fund balance	15.91	13.95	10.47	11.11	11.15
Earmarked Reserves	29.16	14.71	14.27	13.83	13.39
Capital Receipts	1.93	1.82	0	0	0
Provisions	3.0	3.36	2.26	2.26	2.26
Total core funds	**50.00**	**33.84**	**27.00**	**27.20**	**26.80**
Other cashflow sums	12.17	17.16	21.00	13.25	7.11
Expected investments	**62.17**	**51.00**	**48.00**	**40.45**	**33.91**

2.4 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although they are also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

DLUHC (Department for Levelling Up, Housing and Communities) regulations have been issued which require the Full Council to approve an MRP Statement in advance of each year. A variety of options are provided to Councils, so long as there is a prudent provision. The Council is recommended to approve the MRP Statement in Appendix 2.

The Council does not currently have any General Fund external debt and therefore is not statutorily required to make Minimum Revenue Provision (MRP) in respect of its CFR, but there is a requirement for a charge for depreciation to be made.

It is considered prudent to make VRP in respect of the PWLB maturity loans funding the HRA self-financing settlement payment. The table in 2.2 above shows the VRP reducing the CFR. The VRP is incorporated in the HRA Business Plan and in the 2022/2023 HRA budget. If borrowing is taken out for general fund in 2022/23, the current MRP policy will need to be reviewed.

MRP Overpayments

A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2021 there were no VRP overpayments.

2.5 Affordability Prudential Indicators

This report covers the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator contained in Appendix 1.

Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

	Actual 2020/21 %	Estimate 2021/22 %	Estimate 2022/23 %	Estimate 2023/24 %	Estimate 2024/25 %
Non-HRA	(1.96)%	(1.90)%	(1.88)%	(2.05)%	(2.05)%
HRA	31.84%	32.32%	15.58%	16.32%	15.72%

3 Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's Treasury Investment and debt portfolio position at 31 March 2021 and 31 December 2021 summarised below;

TREASURY PORTFOLIO				
	actual **31.3.21**	actual **31.3.21**	current **31.12.21**	current **31.12.21**
Treasury investments	**£000**	**%**	**£000**	**%**
banks	47,175	76%	61,110	71%
building societies – unrated	2,000	3%	4,000	5%
building societies – rated	0	0%	0	0%
local authorities	2,000	3%	3,000	4%
DMADF (H.M.Treasury)	0	0%	0	0%
money market funds	4,000	7%	10,450	12%
certificates of deposit	0	0%	0	0%
Total managed in house	**55,175**	**89%**	**78,560**	**92%**
diversified funds	2,000	3%	2,000	2%
property funds	5,000	8%	5,000	6%
Total treasury investments	**62,175**	**100%**	**85,560**	**100%**
Treasury external borrowing				
local authorities	0	0%	0	0%
PWLB	44,320	100%	44,320	100%
LOBOs	0	0%	0	0%
Total external borrowing	**44,320**	**100%**	**44,320**	**100%**
Net treasury investments / (borrowing)	**17,855**	**0**	**41,240**	**0**

The investments held at 31st December 2021 are shown in Appendix 3.

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
External Debt					
Debt at 1 April (HRA)	**44.32**	**44.32**	**36.21**	**39.84**	**47.27**
Expected change in Debt	0.00	0	3.1	7.1	1.3
Re-payments (HRA debt)	0.00	(8.86)	0.00	0.00	0.00
Other long-term liabilities (OLTL)	0.00	0.75	0.53	0.33	0.25
Actual gross debt at 31 March	**44.32**	**36.21**	**39.84**	**47.27**	**48.82**
Capital Financing requirement – HRA	52.97	49.35	54.48	61.85	60.01
Capital Financing requirement - GF	(4.22)	(4.44)	(3.65)	(3.74)	(3.83)
The Capital Financing Requirement	**48.75**	**44.91**	**50.82**	**58.11**	**57.18**
Under / (over) borrowing	4.43	8.70	10.98	10.84	8.36

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council's only external borrowing relates to the HRA Self-Financing settlement (initially £70.9m on 28/3/2012 now £44.32m but to reduce to £35.46 on 28/3/2022). Prior to this borrowing being undertaken, the Council 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, Arun's gross debt is not expected to exceed its CFR.

The Interim Group Head of Corporate Support reports that the Council complied with the prudential indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

3.2.1 **The Operational Boundary.**

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

The Council is requested to approve an operational boundary of £53M in Appendix 1 (2022/23).

3.2.2 **The Authorised Limit for external debt.**

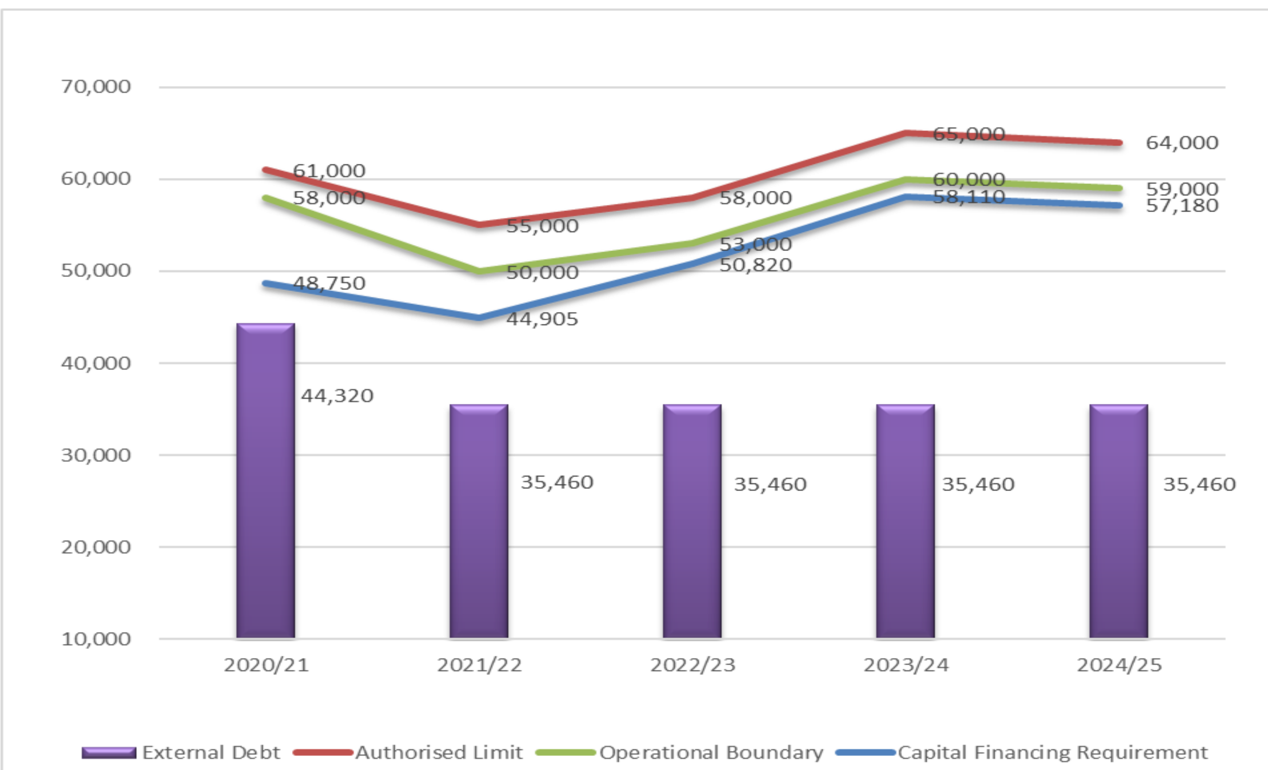
This is a key prudential indicator represents a control on the maximum level of borrowing.

This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

i. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

ii. The Council is asked to approve an Authorised Limit of £58M appendix 1 (2022/23).

3.2.3 The chart below shows the Councils projection of CFR and borrowing.



The bars in the chart above show the actual external debt (£44M-35M) and does not include any potential future borrowing. The Authorised limit and operational boundary factor in up to £23m potential borrowing (in 2022/23) which allows for expenditure on sheltered accommodation, new acquisitions, garages and works to the Arun Leisure Centre. The debt repayment on 28 March 2022 is shown in 2021/22 (reducing the borrowing from £44M to £35M at this date).

3.3 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 20th December 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021. A further rise to 0.50% took place on 3rd February 2022.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%. Link Group will update this forecast in light of the February rate rise.

Forecasts for Bank Rate (Link Group on 20th December 2021)
It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.

- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?

- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.

- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?

- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.

- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.

- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields
Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

A new era for local authority investing
– a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- ***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Investment and borrowing rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -.

  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)

- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- **Borrowing for capital expenditure.** Link Group's long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if an authority is seeking to avoid a "cost of carry" but also wishes to mitigate future re-financing risk

3.4 Borrowing Strategy

3.4.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered

The Council has a significant capital programme including HRA acquisition/new build. The level of expenditure within the HRA will almost certainly require additional borrowing which will be reflected in the HRA 30 year financial model which will form an integral part of the Business Plan. The HRA business plan will include a programme of new build/stock acquisition, in addition to ongoing maintenance and decent homes programme.

The source of any new borrowing has not been identified at the time of writing, but this would need to be dependent on a viable business case which fully justifies the investment.

The Council's borrowing strategy will give consideration to new borrowing in the following order or priority;

- Internal borrowing;

  By running down cash balances and foregoing interest earned at historically low rates, as this is the cheapest form of borrowing, however, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years;

- External borrowing;

  - the PWLB Certainty Rate is available to the Council at 0.2% below the normal terms (the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing) or;

  - local authorities and the Local Government Association Municipal Bonds Agency who may from time to time offer options to borrow more cheaply than from the PWLB, and therefore will be considered.

- Following the decision by the PWLB to reduce its rates to gilts + 80 basis points, its rates are now competitive. However, consideration will also need to be given to sourcing funding at cheaper rates from the following:

On Balance Sheet	Fixed	Variable
Banks	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Local Bonds	●	
Negotiable Bonds	●	●

Some options have been added for the 2022-23 strategy to ensure the best funding option can be selected should the Council require external borrowing.

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

There may be an occasional need to borrow for liquidity purposes especially as the Council no longer has an overdraft facility. The facility was removed as banking costs made it very expensive and rather than incurring any costs for the facility, the treasury team now maintain an approximate £200k balance in the account daily. Since the coronavirus outbreak, this balance has not been earning any interest but is now achieving the base rate less 10bp (0.15% prior to the rate hike in February).

3.4.2 Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the treasury indicators and limits in Appendix 1 also shown below:

Maturity structure of fixed interest rate borrowing 2022/23			
	Actual at 31/3/22	**Lower**	**Upper**
Under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

The Council currently has no variable rate borrowing.

3.5 Policy of Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt Rescheduling

The only loans that the Council currently hold are those taken to fund the housing reform payment.

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

If rescheduling was done, it will be reported to Full Council at the earliest meeting following its action.

4 Annual Investment Policy and Strategy

4.1 Investment Policy – Management of risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council’s investment policy has regard to the following: -

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council’s risk appetite. In the current economic climate, where the rates are exceptionally low and, in some cases, negative, it is considered appropriate to keep investments short to cover cash flow needs, which are not always clear with the current pandemic. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in longer periods with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 6 under the categories of 'specified' and 'non-specified' investments.

   - **Specified investments;** (these are considered low risk assets where the possibility of loss of principal or investment income is small) are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Lending limits**, (amounts and maturity), for each counterparty category will be set. (Appendix 6).

6. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (Appendix 1).

7. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (Appendix 8).

8. The Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given

the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

9. All investments will be denominated in **sterling**.

10. The Council may invest in investments that are termed **"alternative investments".** These include, but are not limited to, things such as renewable energy bonds (Solar farms). These are asset backed bonds, offering good returns, and will enable the Council to enter new markets, thus furthering the diversification of our investment portfolio with secured investments and enhancing yield. Any investments entered into of this type will be subject to a full due diligence review prior to investment. (Category 8, Appendix 6)

11. The Council may invest in **Open Ended Investment Companies (OEICs)** such as diversified funds (currently the CCLA property fund and diversified fund) subject to some form of due diligence. These funds diversify the risk and offer enhanced returns (Category 11 & 12, Appendix 6)

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Department of Levelling Up, Housing and Communities, (DLUHC) concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.

The Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

The Council does not strictly adhere to the advisor's suggested lending list and durations, but does take account of the advice offered before making any investment decisions. The Council will take advantage of any attractive rates available from counterparties of high creditworthiness for longer periods while interest rates remain extremely low. Rates are set to stay low till at least March 2025, increasing only to 1.25%

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Council achieves a high credit quality by using a minimum rating criteria (where rated). It does not use the approach suggested by CIPFA of using the lowest common denominator method of selecting counterparties as some rating agencies are more aggressive in giving low ratings than others. The Council applies a majority rule where a counterparty would be removed immediately from the lending list if 2 or more rating agencies downgrade the counterparty below the minimum criteria. The Council's minimum criteria can be seen in Appendix 7.

Additional requirements under the Code require the Council to supplement credit rating information, which the Council achieves using the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's.

The credit ratings of counterparties are supplemented with the following overlays:

- watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

All credit ratings are monitored weekly and the Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

The current list of approved counterparties is included in Appendix 7. Lloyds being the incumbent bank, has no limit however the Council will only invest up to £11M in term deposits with them.

4.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

Non-specified treasury management investment limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being £24M (22/23) of the total treasury management investment portfolio.

Country limits. The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent) as per the creditworthiness policy. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 7. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

The exception to this policy is the UK, which is currently rated AA- by 2 of the rating agencies. If the UK's credit rating should fall below the minimum criteria set above, investment will continue to be made in UK financial institutions if after careful consideration it is deemed appropriate to do so.

No more than 25% will be placed with any individual non-UK country or 50% total non-UK at any time.

Sector limits. The Council does not currently use sector limits e.g. banks v. building societies due to the limited number of quality counterparties available. The Council has a limit of between £4M and £12M (see Appendix 6 and 7 for investment categories) which can be invested with a single counterparty (or group) depending on the credit quality of the counterparty.

Every effort will be made to spread the maturity profile of investments to compensate for the lack of sector or country spreads (due to limited counterparties).

4.4 Investment Strategy

The Council does not utilise external fund managers, but reserves the option to do so in the future should this be deemed to be appropriate, although it does invest in pooled funds. Should consideration be given to exercising the option of external fund managers in the future, the relevant Committee will be advised of the reason for doing so.

The Council's funds are therefore all managed in-house although £7m is invested in pooled funds - £5m in a property fund and £2m in a diversified fund run by CCLA (Churches, Charities and Local Authorities).
Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months).
Greater returns are usually obtainable by investing for longer periods. Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

The average level of funds available for investment purposes is currently £77M (as at 31 December 2021). These funds are partially cash-flow derived and there is a core balance of approximately £50M which is available for investments over a year (maximum 5 years or 25 years for property funds). The core balance is comprised of funds that are available due to a number of factors including the setting aside of funds to repay the HRA loans (£1.36M from 22-23 - previously £3.5M) for when they become repayable, the Earmarked Reserves, Capital Receipt, General Fund and HRA balances which were £29.16, £1.93m, £10.08m and £8.83m at 31 March 2021 respectively.

The Council has the following spanning the financial year and there are no forward commitments (deals) for the financial year 2022/23;

- £5m invested in the CCLA property fund
- £2m invested in the CCLA diversified fund

Investment returns expectations.
The current forecast shown in paragraph 3.3, includes a forecast for a first increase in Bank Rate in May 2022, though it could come in February.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows.:

Average earnings in each year	Now	Previously
2022/23	0.50%	0.50%
2023/24	0.75%	0.75%
2024/25	1.00%	1.00%
2025/26	1.25%	1.25%
Long term later years	2.00%	2.00%

For its cash flow generated balances, the Council will seek to utilise its call accounts notice accounts, money market funds and short-dated deposits, in order to benefit from the compounding of interest.

The Council's budgeted rate of return for 2022/23 is 0.84% based on 0.48% of funds that are already invested; 3.9% for the property fund (£5M), 2.9% for the diversified fund (£2m), 0.34% for the remaining core balances; and 0.18% for short term cash flow derived balances. The total investment income budget for 2022/23 is £370k (compared to £332k in 2021/22) which highlights a slight expected improvement in the rates contributing to the returns.

The Council currently uses three types of Pooled Funds; property Funds, diversified funds and MMFs. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns particulary in the case of the property and diversified funds.

MMFs are used for short term daily surpluses of cash as they provide instant liquidity with high quality counterparties, but due to the pandemic, like other institutions, the rates are extremely low (0.06% - 0.13%).

The MMFs are “triple A” rated, liquid, and are currently all LVNAV (Low Volatility net asset value). This is a change from the previous constant net asset value (CNAV) as a result of the MMF reform where typically for every pound of principal invested you got a pound back. It is not guaranteed, but LVNAV offers better protection than using the VNAV (Variable net asset value) MMFs.

LVNAV MMFs are permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the fund does not deviate from the dealing NAV by more than 20 basis points.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limits in appendix 1 (shown below- top line):

Upper limit for principal sums invested for longer than 365 days			
£m	**2022/23**	**2023/24**	**2024/25**
Principal sums invested for longer than 365 days	£24m	£22m	£18m
Current investments as at 31/12/21 in excess of 1 year	£7m	£7m	£7m

4.5 Changes from last year

This report includes additions to the counterparty lending list (appendix 7) in the way of JP Morgan Chase Bank and National Australia Bank. They both adhere to the minimum credit criteria in category 1 and have been added for diversification/to offer further options in this low interest rate environment.

Also 3.4.1 – further borrowing options have been added to ensure the best funding source can be selected should the Council require external borrowing.

4.6 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of O/N SONIA (Sterling Overnight Index Average) compounded rate. The Council previously used the 7 day LIBID rate, but this ceased at the end of 2021.

The SONIA is a risk-free rate for sterling markets administered by the Bank of England. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and institutional investors.

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change.

The Council has also subscribe to Link's Investment Benchmarking Club to review the investment performance and risk of the portfolios.

4.7 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.8 Scheme of delegation

Please see Appendix 9.

4.9 Role of the section 151 officer

Please see Appendix 10.

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Prudential and treasury indicators

APPENDIX 1

1. PRUDENTIAL INDICATORS	2020/21	2021/22	2022/23	2023/24	2024/25
Extract from budget and rent setting report	**Actual**	**Probable outturn**	**Original**	**Original**	**Original**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure					
Non – HRA	2,930	3,851	3,939	2,446	2,142
HRA	6,472	8,488	8,351	6,560	6,774
TOTAL	**9,402**	**12,339**	**12,290**	**9,006**	**8,916**
Ratio of financing costs to net revenue stream					
Non – HRA	(1.96)%	(1.90)%	(1.88)%	(2.05)%	(2.05)%
HRA	31.84%	32.32%	*15.58%	16.32%	15.72%
Capital Financing Requirement as at 31 March					
Non – HRA	(4,223)	(4,442)	(3,655)	(3,742)	(3,830)
HRA	52,973	49,347	54,475	61,852	61,010
TOTAL	**48,750**	**44,905**	**50,820**	**58,110**	**57,180**
Annual change in Cap. Financing Requirement					
Non – HRA	(214)	(219)	787	(87)	(88)
HRA	*608	(3,626)	5,128	7,377	(842)
TOTAL	**394**	**(3,845)**	**5,915**	**7,289**	**(930)**

* Reduced VRP for HRA debt

2. TREASURY MANAGEMENT INDICATORS	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Probable outturn	Original	Original	Original
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
Borrowing	60,000	54,000	53,000	60,000	59,000
Other long term liabilities	1,000	1,000	5,000	5,000	5,000
TOTAL	**61,000**	**55,000**	**58,000**	**65,000**	**64,000**
Operational Boundary for external debt					
Borrowing	57,000	49,000	48,000	55,000	54,000
other long term liabilities	1,000	1,000	5,000	5,000	5,000
TOTAL	**58,000**	**50,000**	**53,000**	**60,000**	**59,000**
Actual external debt	44,320	35,460	35,460	35,460	35,460
Upper limit for total principal sums invested for over 365 days (£m)	**18,000**	**18,000**	**24,000**	**22,000**	**18,000**

2022/23 potentially up to £7m of borrowing for garages and sheltered accommodation. (Plus £1m internal borrowing for Arun Leisure centre works)

2023/24 potentially up to £9m of borrowing for garages, Sheltered accommodation and new HRA acquisitions.

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/3/22	lower limit	upper limit
under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

APPENDIX 2

Minimum Revenue Provision Policy

1. Introduction

1.1 DLUHC Guidance on Minimum Revenue Provision (fourth edition -issued in 2018) is currently out for consultation. It places a duty on local authorities to make a prudent provision for debt redemption. Where the Council finances capital expenditure by debt it must set aside resources to repay that debt in later years. The amount charged to revenue for the repayment of this debt is known as the Minimum Revenue Provision (MRP). The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council taxpayers.

1.2. From 2007/08 onwards there has been no statutory minimum and the requirement is simply for local authorities to make a prudent level of provision, and the government has instead issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The guidance gives local authorities more freedom to determine what would be a prudent level of MRP.

1.3. The DLUHC guidance requires the authority to approve an annual MRP statement, and recommends 4 options for calculating a prudent amount of MRP, for approval by Full Council in advance of the year to which it applies. Any subsequent revisions to that policy should also be approved by Full Council.

2. Details of DLUHC Guidance on MRP

2.1. The statutory guidance issued by DLUHC sets out the broad aims of a prudent MRP Policy as being "to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant." It then identifies four options for calculating MRP and recommends the circumstances in which each option should be used, but states that other approaches are not ruled out.

2.2. The four MRP options available are:

- **Option 1**: Regulatory Method - is the previous statutory method, which is calculated as 4% of the Council's General Fund Capital Financing Requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

- **Option 2**: CFR Method - Option 2 differs from Option 1 only in that the smoothing factors are removed. Option 2 has been included by DLUHC to provide a simpler calculation for those councils for whom it would have a minimal impact, but the draft guidance does not expect it to be used by councils for whom it would significantly increase MRP.

- **Option 3**: Asset Life Method – MRP is charged over the expected useful life of the asset either in equal instalments or using an annuity method whereby the MRP increases in later years.

- **Option 4**: Depreciation Method - MRP is charged over the expected life of the asset in accordance with depreciation accounting. This would mean that the rate at which the MRP is charged could increase (or, more rarely, decrease) from year to year.

  The guidance clearly states this does not preclude other prudent methods to provide for the repayment of debt principal.

2.3 Under the statutory guidance, it is recommended that local authorities use Options 3 or 4 for all prudential borrowing and for all borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments). Authorities may use any of the four options for MRP for their remaining borrowing to fund capital expenditure.

2.4. For balance sheet liabilities relating to finance leases and PFI schemes, the guidance recommends that one prudent approach would be for local authorities to make an MRP charge equal to the element of the annual rental which goes to write down the balance sheet liability. This would have the effect that the total impact on the bottom line would be equal to the actual rentals paid for the year. However the guidance also mentions that Option 3 could be used for this type of debt.

2.5 The guidance also allows authorities to take an MRP Holiday where assets do not become operational for perhaps 2 or 3 years or longer. It proposes that MRP would not be charged until the year following the one in which the asset became operational.

3. Details of Statute - Part 4 Section 23 b of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

3.1 In deciding on the appropriate level of MRP to charge and the most appropriate method of financing the capital programme, the Council needs to have regard to the wider legislation regarding the use of capital receipts.

3.2 Statute gives local authorities the option to apply capital receipts to fund the payment of any liabilities relating to finance leases and PFI schemes. This is a reflection of the fact that such schemes are being treated in accounting terms as the acquisition of fixed assets, and the liability represents the amount being paid towards the purchase of the asset itself, rather than interest or service charges payable.

3.3 Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years.

4. MRP Policy

It is recommended the Council adopt the following MRP policy:

- MRP will be charged utilising **option 3** for assets which have been funded from prudential borrowing.
- MRP will only be charged in the year following the asset becoming operational.
- If capital receipts are utilised to repay debt in year, the value of MRP chargeable will be reduced by the value of the receipts utilised.
- Whether an annuity or equal instalment method is adopted for option 3 will be dependent on the most financially beneficial method as determined by the Chief Financial Officer
- For PFI and Finance lease liabilities an MRP charge will be made to match the value of any liabilities that have not been funded from capital receipts.
- The Chief Finance Officer will determine annually the most prudent use of Capital Receipts, taking into account forecasts for future expenditure and the generation of further receipts.
- There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited due to HRA self-financing settlement and provision has been made within the business plan to show that it can pay down the remaining debt over the life of the business plan.
- Any major revisions to this policy will be presented to Full Council for approval.

INVESTMENTS at 31st December 2021

Appendix 3

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	777	Goldman Sachs	15/01/2021	14/01/2022	£1,000,000.00	0.085
Fixed Term Deposit	783	Qatar National Bank	01/04/2021	01/04/2022	£1,000,000.00	0.535
Fixed Term Deposit	784	Qatar National Bank	06/04/2021	07/03/2022	£3,000,000.00	0.505
Fixed Term Deposit	786	Goldman Sachs	07/04/2021	07/01/2022	£1,000,000.00	0.31
Fixed Term Deposit	787	Qatar National Bank	26/04/2021	21/03/2022	£2,000,000.00	0.505
Fixed Term Deposit	789	Qatar National Bank	04/05/2021	21/03/2022	£1,000,000.00	0.485
Fixed Term Deposit	791	Goldman Sachs	21/05/2021	23/05/2022	£7,000,000.00	0.325
Fixed Term Deposit	792	Qatar National Bank	07/06/2021	06/06/2022	£1,000,000.00	0.56
Fixed Term Deposit	796	Thurrock Council	15/06/2021	15/02/2022	£3,000,000.00	0.12
Fixed Term Deposit	797	Close Brothers	10/08/2021	10/08/2022	£1,000,000.00	0.45
Fixed Term Deposit	799	Close Brothers	03/09/2021	05/09/2022	£3,000,000.00	0.45
Fixed Term Deposit	801	Standard Chartered Bank	07/07/2021	21/03/2022	£1,000,000.00	0.15
Fixed Term Deposit	802	Qatar National Bank	03/08/2021	02/08/2022	£1,000,000.00	0.585
Fixed Term Deposit	803	NatWest Bank	16/07/2021	16/03/2022	£2,000,000.00	0.09
Fixed Term Deposit	804	Standard Chartered Bank	24/08/2021	28/03/2022	£2,000,000.00	0.12
Fixed Term Deposit	805	Close Brothers	26/10/2021	21/03/2022	£2,000,000.00	0.20
Fixed Term Deposit	806	Close Brothers	09/11/2021	21/03/2022	£2,000,000.00	0.20
Fixed Term Deposit	807	Yorkshire Building Society	20/10/2021	20/10/2022	£4,000,000.00	0.56
Fixed Term Deposit	808	Standard Chartered Bank	28/10/2021	08/04/2022	£4,000,000.00	0.30
Fixed Term Deposit	809	Standard Chartered Bank	03/11/2021	06/04/2022	£2,000,000.00	0.35
Fixed Term Deposit	810	DBS	10/11/2021	06/04/2022	£4,000,000.00	0.20
Fixed Term Deposit	811	Goldman Sachs	22/11/2021	22/11/2022	£2,000,000.00	0.825
Fixed Term Deposit	812	DBS	25/11/2021	07/02/2022	£3,000,000.00	0.12
Fixed Term Deposit	814	DBS	07/12/2021	07/02/2022	£2,000,000.00	0.11
Fixed Term Deposit	815	Standard Chartered Bank	23/12/2021	31/03/2022	£1,000,000.00	0.20
Call Account	44447	Lloyds			£1,110,000.00	0.01
Callable deposit	44443	Santander 95DN			£11,000,000.00	0.40
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	*3.46
Diversified Fund	140500	CCLA (Churches, Charities and LA's)			£2,000,000.00	*2.39
Money Market Fund	99999	Fidelity			£2,550,000.00	0.06
Money Market Fund	120000	Aberdeen Standard			£3,900,000.00	0.06
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.132
					£85,560,000.00	

* rates at December

Interest Rate Forecast 2021- 2025

APPENDIX 4

PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View 20.12.21														
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.25	0.50	0.75	0.75	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.40	1.40	1.50	1.50	1.60	1.70	1.70	1.80	1.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	1.60	1.60	1.70	1.70	1.80	1.80	1.90	2.00	2.00	-	-	-	-	-
25yr PWLB Rate														
Link	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	-	-	-	-	-
50yr PWLB Rate														
Link	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.40	1.50	1.60	1.70	1.80	1.90	2.00	2.20	2.30	-	-	-	-	-

5.3 ECONOMIC BACKGROUND (Link Group)

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.

- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16H DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    - Raising Bank Rate as "the active instrument in most circumstances".
    - Raising Bank Rate to 0.50% before starting on reducing its holdings.

  - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.
  See also comments in paragraph 3.3 under PWLB rates and gilt yields.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.
- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.
- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a **reversal of world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

Specified and Non-Specified Investments **APPENDIX 6**

	specified	non-specified	Minimum Credit Criteria Fitch (and equivalent) / Minimum Criteria	Maximum Investment per Institution	Max. maturity period
Term deposits – Local Authorities **(category 1)**	✓	✓	--	£12M	5 years
Term deposits – banks and building societies **(category 1)**	✓	✓	Short-term F1+ Long-term AA-	£12M	5 years
Term deposits – banks and building societies **(category 2)**	✓	✓	Short-term F1 Long-term A+	£11M	3 years
Term deposits – banks and building societies **(category 3)**	✓	✓	Short-term F1 Long-term A-	£8M	2 years
Term deposits – building societies **(Category 4)**	✓	✓	Assets in Excess of £10 billion	£4M	1 year
Council's bank (for term deposits use appropriate category 1 to 3) **(category 5)**	✓	✓	n/a	No limit *Although category limit for term deposits*	As category 1 to 3
Term deposits – UK part nationalised banks **(category 6)**	✓	✓	Short-term F3 Long term BBB-	£11M	3 years
Callable deposits	✓	✓	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6
Forward deposits	✓	✓	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6
Alternative Investments – Asset Backed Bonds **(Category 8)**		✓	--	£4M	25 years
Debt Management Agency Deposit Facility **(category 9)**	✓	✓	--	No limit	Liquid

Bonds Issued by multilateral development banks **(category 10)**		✓	Long term AAA	£4M	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)					
Money Market Funds (CNAV, LVNAV & VNAV) Government Liquidity Fund **(Category 7)**	✓		AAA	£4M	liquid
Property funds **(Category 11)**		✓		£6M	25 years
Multi-Asset Funds **(Category 12 –** diversified funds**)**		✓	--	£6M	10 - 15 years

Part nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they are no longer separate institutions in their own right, however, these institutions have effectively taken on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. It is therefore proposed to continue to keep the category of UK part nationalised banks for both specified and unspecified investments (category 6).

There are currently no counterparties within this section. National Westminster Bank and the Royal Bank of Scotland are part nationalised but their ratings adhere to category 2.

APPENDIX 7

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

Bank of Nova Scotia (CAN)
DBS Bank Ltd (SING)
National Australia Bank
Oversea-Chinese Banking Corp Ltd (SING)
Handelsbanken Plc (UK)
JP Morgan Chase
United Overseas Bank Ltd (SING)
First Abu Dhabi Bank (U.A.E)

Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria			
	Fitch	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Barclays Bank plc (RFB & NRFB) (UK)
Bank of Scotland PLC (RFB) (Lloyds Banking Group)
Goldman Sachs International Bank (UK)
HSBC Bank plc (UK)
Standard Charted Bank (UK)
Qatar National Bank (Qatar)
National Westminster Bank PLC (RFB) (UK)
Royal Bank of Scotland PLC (RFB) (UK)
Santander (UK)

Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A-**	**F1**
	Moody	**A3**	**P-2**
	S&P	**A-**	**A-1**

Nationwide Building Society (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)
Principality 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 Bank Plc (RFB) (Cat 2)
Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2)

Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years
banks effectively nationalised by UK government

		Long Term	Short Term
Min Criteria	**Fitch**	**BBB-**	**F3**
	Moody	**Baa3**	**P-3**
	S&P	**BBB-**	**A-3**

Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)

- Money Market Funds (MMF's), (CNAV, LVNAV, VNAV) & Enhanced MMF's
- Government Liquidity Funds

Limit of £4million for each institution

	Fitch	NAV
Aberdeen Standard (GBP)	AAA	LVNAV
CCLA Public sector deposit fund (PSDF)	AAA	LVNAV
Deutsche Banking Group	AAA	LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)	AAA	LVNAV
Northern Trust	AAA	

Category 8 - Alternative Investments (Asset Backed Bonds) - 25 Years
Maximum investment £4 million

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 AAA

Category 11 – Property Funds - 25 Years
Maximum investment £6 million

CCLA

Category 12 - Multi-Asset Funds - 15 Years
Maximum investment £6 million

CCLA - Diversified Income Fund

Approved countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest of 2 or more rating agencies) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Based on a majority rule of available ratings.

AAA
- Australia
- Canada (Fitch AA+)
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.S.A. (S&P AA+)

AA+
- Finland

AA
- Abu Dhabi (UAE)
- France

AA-
- Belgium (S&P AA)
- Hong Kong
- Qatar
- **U.K.** (S&P AA)

APPENDIX 9

Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing monitoring and outturn reports on treasury management.
- approval of annual Treasury Management Strategy Statement and Annual Investment Strategy
- approval of MRP Statement

(ii) Policy and Finance Committee

- approval of amendments to the annual treasury management strategy once approved by Full Council between its review in consultation with the Interim Group Head of Corporate Support.
- budget consideration and approval
- approval of the division of responsibilities;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit and Governance Committee (responsibility for scrutiny)

- reviewing the treasury management policy and procedures and making recommendations to Full Council (the responsible body).
- Scrutiny of annual strategy prior to adoption by Full Council
- Scrutiny of monitoring and outturn reports
- receiving and reviewing reports on treasury management policies, practices and activities

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 22 FEBRUARY 2022

REPORT

SUBJECT: Progress Against the Audit Plan

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager
DATE: January 2022
EXTN: 37561
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:

There are no recommendations to the Audit & Governance Committee. This is an information report only

1. BACKGROUND:

An outline Audit Plan was presented to the Committee at its February 2021 meeting reflecting the resource available at that time and a revised Plan presented at the July 2021 meeting reflecting the current reduction in resource available.

The attached report identifies the main areas of work undertaken by the Internal Audit section to January 2022.

2. PROPOSAL(S):

There are no recommendations to the Audit & Governance Committee. This is an information report only

3. OPTIONS:

N/A

4. CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓

Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**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:

For the Audit & Governance Committee to receive the report on progress made against the revised outline Audit Plan

8. BACKGROUND PAPERS:

N/A

Audit Progress

At the Audit & Governance Committee meeting in February 2021 the Committee agreed an outline plan for the section for 2021/22, but due to a reduction in current resource available a revised plan was provided in July 2021.

As advised to the Committee previously, the global Covid-19 crisis caused a significant impact on the Council and its operations (through 2020 and into 2021). Work has been undertaken in the following areas:-

Code	Title	Work performed
RE03	Main Accounting	• Annual key controls testing has been completed (no issues to report) • Update of CIPFA Financial Management Code compliance self-assessment • Investigation of options for future provision of external audit services (for Interim Financial Services Manager)
RE04	Purchase Ledger	• Annual key controls testing has been completed (no issues to report)
RE08	Payroll	• Annual key controls testing in progress (no issues to report) • Monthly joiner and leaver checking progressed (and 2020 work caught up) • Checking of redundancy calculations, as required
CS1	Housing Benefit (& Council Tax Reduction)	• Annual key controls testing has been completed (no issues to report) • Review of E&Y results from Housing Benefit Subsidy Claim certification work and preparing summary report for A&GC (July 2021)
CS17	Council Tax	• Annual key controls testing has been completed (write-off policy to be updated)
CS18	NDR	• Annual key controls testing has been completed (write-off policy to be updated) • Liaison with Revenues and review of Government, NFI, NAFN, etc. communications on Covid-19 Business Support Grants (mandatory schemes all now closed) • Liaison with Revenues and conducting post-payment assurance checks on claims / payments made to meet BEIS requirements • Monitoring weekly grant payments made and advising Finance to ensure grant scheme payments are appropriately recorded in the G/L

		• Provision of documentation to BEIS in respect of their sample testing request, in conjunction with Revenues. (Mandatory grants for March-July 2020 were paid through the Northgate system) • Reconciliation of multiple grant schemes in liaison with Revenues and Finance and notification to BEIS • Review of data matches on March-July 2020 grants received from the National Fraud Initiative
CS19	Income: Sundry Debtors	• Annual key controls testing has been completed (write-off policy updated)
CS12	Information Technology	• Liaison with ICT staff in respect of Council cybersecurity risk assessment and security measures • Liaison with ICT staff on lessons from ransomware attacks at other Councils • Liaison with ICT staff on revisions to relevant pages for the new website
CS13	Information Technology – Physical Security & Disaster Recovery	• Liaison with Neighbourhood Services staff regarding the progress of Council Business Continuity Planning (BCP) arrangements and documentation
CP01	Partnerships	• Liaison with Group Head of Policy in respect of her work on progressing the partnerships register (from past audit work) prior to her report to the Audit & Governance Committee in November 2021
CP02	Information & Data Governance	• Ongoing liaison with Information Governance staff regarding data protection • Chairing periodic meetings of the Information Security Group
PR07	FMS Support / Replacement	• Liaison with Finance and ICT on progress of FMS upgrade and hosting (now in place)
PR09	Digital Arun Project	• Ongoing liaison on progress of the Council's digital strategy
PR12	Covid-19 Work	• Ongoing liaison / miscellaneous activities relating to Council operations and controls in light of Covid-19 crisis in 2020-22 • Assisting Finance in preparing submissions for central government (MHCLG and BEIS) • Risk assessments and post-payment assurance test plans prepared for Covid grants distributed, as required by the BEIS • Post-payment assurance testing on documentation held in support of grant payments, etc. • Reconciliation of closed grant schemes between Ascendant system and G/L and reporting to BEIS and Finance • Submission of business support grants (March-July 2020) data to HMRC to meet Statutory Notice requirements • Review of BEIS documentation, attending webstreams, etc. to ensure that Council understands and complies with requirements on the multiple grant schemes (e.g. eligibility, checking, reporting and

		reconciliation requirements). This became increasingly complex with the speed of change involving different schemes for national lockdowns, Tiers, targeted payments, etc. although all schemes are now closed (except for the discretionary Additional Restrictions Grant which runs until March 2022) • Liaison with Revenues and Economy staff in respect of new grants announced in December 2021 (Omicron Hospitality & Leisure and ARG Top-Up) • Liaison with Revenues in respect of Covid Additional Restrictions Fund (CARF) scheme (discretionary business rate relief to be applied to NDR accounts) • Chief Internal Auditor / Chief Executive declaration for Restart Grants for submission to BEIS • Liaison with S151 Officer on other grant declarations for submission to BEIS
CP03 MS01	Corporate Governance Annual Governance Statement	• Annual review of compliance against the Council's local Code of Corporate Governance • Preparation of the updated Annual Governance Statement and review by Governance & Risk Group • Draft AGS published on website with draft Accounts and provided to external audit • Final AGS to be published with the audited Accounts (now due at A&GC 22/2/22). Some minor updates have been made and the final version provided to Leader and CEO for signature ***Reviewed by G&R Group and CMT 6/21*** ***Reported to A&GC 29/7/21 (draft)***
MS03	RIPA	• 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 • Officer training is an outstanding issue from the last Inspection Report and has been delayed by Covid restrictions
MS04	NFI	• The NFI Council Tax Single Person Discount reports were received in December 2020. Review of these has been progressed on a sample basis (using a new risk score added by the Cabinet Office) and queries referred to Revenues who have written to account holders and re-billed where deemed appropriate • Reports for the main 2-yearly NFI exercise were received in February and review has been progressed (except for benefits items which were passed to R&B) • Reports for the Covid-19 grant schemes (March-July 2020) received and reviewed • Further file of Covid-19 grants (post-November 2020) provided to Cabinet Office • Further data matches from HMRC data have been received in late 2021 and review is progressing • The next Council Tax Single Person Discount files are due to be provided to the Cabinet Office at the start of December 2021

CP04	Risk Management	• Update of Strategic Risk Register via Governance & Risk Group in 10/21 for the A&GC in November ***Reported to A&GC 16/11/21***
IN02 CP05	Fraud & Corruption Fraud & Corruption	• Compilation of data for publication to meet Government Data Transparency Code requirements • Preparation of Annual Counter-Fraud Report ***Reported to A&GC 29/7/21*** • Submission of annual CIPFA Fraud & Corruption Tracker survey • Consideration of various CIPFA and NAFN communications on increased fraud risks during the pandemic period • Review / update of Council's fraud operational risk register • Preparation of risk of fraud (ISA240) letters for external audit
PL03	Strategic Housing	• Review of old business case and documentation for Trisanto – input to requirements provided to consultants for external review as requested by the Director of Place
PL06	Economic Regeneration	• Liaison regarding administration of Covid-19 Discretionary Grant Fund / fraud checking (first lockdown) • Liaison regarding adoption and administration of County-wide scheme for Additional Restrictions Grant (discretionary scheme runs until March 2022), which now allows use for 'wider business support' schemes which have been approved by the Economic Committee • Monitoring weekly grant payments made and advising Finance to ensure grant scheme payments are appropriately recorded in the G/L • Provision of documentation to BEIS in respect of their sample testing request, in conjunction with Economy Group • Consideration of reports / updates on regeneration projects, tourism, etc.
CP06	Ethical Leadership / Behaviour	• Annual review and update of 'checklist' (first used in 2019 audit) largely complete and will then be passed to CMT for review (12/1/22)
CP09	Environmental / Green issues	• Review of external guidance on green agenda and Council progress towards its priority aims
CP10	Resource Management	• Identification of agency and contract staff, including agencies / companies used and rates, in liaison with HR
CP13	Grants & External Funding	• Testing to ensure that grant conditions have been met where sign-off from Chief Internal Auditor and Chief Executive required (e.g. Test & Trace Self-Isolation Support Payments) • Review of query regarding subsidies on the Council's Levelling-Up Fund bid (for Director of Place)

CS03	Housing Finance	• Annual key controls testing has been completed (no issues identified)
MS06	Follow-Up Review	• Liaison with service areas in respect of actions on outstanding audit points
LI02	Member Liaison / Committees	• Consideration of information in respect of change to ‘committee system’ of governance from May 2021 and its operation post-May • Consideration of changes to A&GC future workplan and new Corporate Committee Work Programme
TP02	Officer Group Representation	• Chairing meetings of the Information Security Group and liaison with members on progress
AD02	Business Planning	• Investigation of options for the future provision of an internal audit service for consideration by CMT and reported to Interim Group Head and FSM • Information obtained from Hampshire CC Procurement and potential service providers

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ARUN DISTRICT COUNCIL

REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 22 FEBRUARY 2022

REPORT

SUBJECT : Complaints Policy for Arun District Council

REPORT AUTHOR: Solomon Agutu, Interim Group Head of Law and Governance
DATE: 10 February 2021
EXTN:
MEETING: Audit and Governance Committee

EXECUTIVE SUMMARY:

This report is asking the Audit & Governance Committee to adopt the attached Complaints Policy.

RECOMMENDATIONS: AUDIT & GOVERNANCE COMMITTEE

That the Complaints Policy attached as appendix 1 be adopted.

Background

This policy is being introduced because the way that complaints were dealt with have changed.

Complaints were previously managed by a process contained in the Constitution, and guidance on our website. The procedure was removed from the Constitution as it was not considered as a constitutional document but as an operational document.

The other reason for producing this policy at this time is in order to align Council policy with the guidance from regulators. Complaints against the Council can be Housing complaints (which are regulated by the Housing Ombudsman) or corporate complaints which are regulated by the Local Government & Social Care Ombudsman. Guidance from the two regulators have now diverged and this is an opportunity to put in place a single policy which meets both sets of guidance.

The draft policy attached to this report is accompanied by two procedures – one complying with guidance from the Local Government & Social Care Ombudsman, and one complying with guidance from the Housing Ombudsman.

2. PROPOSAL(S):

The proposal is that the attached policy and procedures are agreed for implementation by the Audit & Governance Committee.

3. OPTIONS:

1. Do nothing
2. Agree the proposals as recommended for adoption
3. Agree the proposals as recommended but with suggested amendments before adoption

4. CONSULTATION:

The Council has had regard to guidance from Local Government and Social Care Ombudsman and to guidance from the Housing Ombudsman

Has consultation been undertaken with?	YES	NO
Relevant Town/Parish Council		
Relevant District Ward Councillors		
Other groups/persons (please specify)		

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial		x
Legal		
Human Rights/Equality Impact Assessment		
Community Safety including Section 17 of Crime & Disorder Act		x
Sustainability		x
Asset Management/Property/Land		x
Technology		x
Other (please explain)		x

6. IMPLICATIONS:

Legal and Human Rights implications.

The right to an effective complaints policy positively implements the right to be treated with dignity. Further as the new policy complies with guidance from the Local Government and Social Care Ombudsman and the Housing Ombudsman, this reduces risks of a finding of maladministration**.**

7. REASON FOR THE DECISION:

To comply with principles of good governance and guidance from regulators**.**

8. BACKGROUND PAPERS:

None

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Feedback & Complaints Policy

February 2022

Feedback & Complaints – contents

Introduction

Arun District Council is committed to providing consistent, efficient, and fair standards of services to its customers.

Feedback and complaints play a role in maintaining and improving standards and the quality of service provided. When we receive feedback or a complaint, we see this as a way of getting an important insight into how services are being delivered. By listening to you we can look at actions that can be taken to improve services and help your experience.

This policy details the way in which feedback and complaints will be managed, investigated and acted upon.

Aim of policy

We recognise the need to provide an efficient professional public service which is responsive to your views and needs.

The aim of this policy is to demonstrate the Council's commitment to delivery of a transparent, clear to understand approach in the management of feedback and complaints based on understanding, speed and fairness.

When dealing with feedback and complaints, it is our aim to work with you so we understand what your issues are and what you would like to happen to resolve it.

We are committed to treating all customers fairly and will make sure that individual needs are taken into account when applying this policy and that any reasonable adjustments are made in line with the Equality Act 2010.

All customer complaints and compliments will be treated equally whether they are:-

- through our online form
- sent to infomanagement@arun.gov.uk,
- by letter (please write to Information Management Team, Arun District Council, Maltravers Road, Littlehampton, West Sussex, BN17 5LF

What is feedback?

Feedback is information about your reaction or opinion as a result of actions or behaviour undertaken by the Council. It can be either positive or negative and used as a basis for service improvement. All feedback is recorded and a copy is sent to the relevant service manager to review and feed into their work plans accordingly.

What is a complaint?

A complaint is an expression of dissatisfaction with a situation – if we have not met your expectations, failed to provide a service or not followed correct procedures.

Not all complaints are to be dealt with under this policy (**see Appendix 1**).

If a formal appeal process exists then this will be used to address your concerns (for example, planning applications, via homeless legislation). To ensure you are using the correct route for the issues you are raising, please see Appendix 1 for guidance on what we cannot deal with.

How you can help us

We understand that it is frustrating when we do not meet your expectations. We will do everything we can to resolve your complaint. In return we ask that you: -

- Treat our staff with respect
- Do not use abusive language or behaviour when communicating with us
- Engage with all reasonable requests made in an effort to resolve your concerns

How your complaint is managed

Arun District Council has an informal ‘service’ stage followed by a two-stage policy.

Upon receipt of the complaint, we will look to see to if we can resolve the issue quickly for you at service level. The relevant service may contact you in the hope of resolving your concern.

If we cannot, your complaint will be dealt with in the following way: -

Stage one complaints

This is the first formal stage and we will acknowledge receipt of your complaint immediately. Subsequently you will receive an update on your complaint including:

- Confirmation your complaint has been received, and in most cases the name and contact details of the investigating officer
- A date or timeframe by which you can expect to receive a response.

The investigating officer may need to ask you for further information to assist with their investigation.

Our policy is to respond in full to you within 10 working days from when we confirm your complaint has been received (please note that Planning complaints have a response period of 25 working days).

If we cannot respond in full within 10 working days, we will provide you with regular updates at least every 10 working days. These will detail the reason for the delay and when you can expect to receive a response.

Our response can be provided by letter, email, face to face or telephone. Where a response is given by telephone or in person, we will offer to provide written confirmation of our discussion.

Our stage one response will advise you of your rights to request a review of the response provided.

Stage two complaints

If you are dissatisfied with the stage one response, you can ask for your complaint to be reviewed by a senior officer.

You will have 28 days from the date of the stage one response to request a review, unless there are exceptional circumstances.

At this point we will ask you to tell us why you are dissatisfied with the stage one response.

We will appoint a senior officer to review your complaint. Whenever possible this officer will be from another service to deliver an independent view. The complaint will be acknowledged within two working days. Subsequently you will receive an update on your complaint including:

- Confirmation your complaint has been received, and in most cases the name and contact details of the investigating officer.
- A date or timeframe by which you can expect to receive a response.

In the review, we will look at how we dealt with your original complaint and we will also respond to any further related issues you have raised (although not new complaints).

All complaints relating to Landlord/Tenant services will follow the Housing Ombudsman Complaint Handling Code.

All complaints relating to Corporate matters will follow the advice of the Local Government & Social Care Ombudsman.

Our aim is to respond in full to you within 25 working days of receipt of your request for review wherever possible (20 days for Landlord/Tenant complaints). If we cannot respond in full within this timeframe, we will provide you with regular updates at least every 10 working days. This will detail the reason for the delay and when you can expect to receive a response.

If the issue your complaint is about is subject to the attention of any formal Council meetings, then your response may be delayed enabling the relevant debate/decision-making process to be achieved. You will be kept advised of when you should expect a response.

Next steps

There is no further right of appeal to the council following completion of a review at stage two of this policy unless your complaint is related to Landlord/Tenant services. If this is the case, you are entitled to request that the matter be escalated to a Designated Person for review. The Designated Person will be your Ward Councillor or local MP.

Within our final response, we will inform you of your right to take your complaint further if you remain dissatisfied. This will be to either the Local Government and Social Care Ombudsman or the Housing Ombudsman as appropriate.

Local Government and Social Care Ombudsman - www.lgo.org.uk Tel 0300 061 0614

For Landlord/Tenant complaints you can approach the Housing Ombudsman. The Housing Ombudsman will investigate complaints about housing management, repairs, leaseholder complaints, transfers, and mutual exchanges. If you go directly to the Housing Ombudsman, complaints will only be considered eight weeks after the date that your stage two complaint was closed.

Housing Ombudsman – www.housing-ombudsman.org.uk Tel 0300 111 3000

Additional Information

Complaints of discrimination and harassment

These issues will be dealt with sensitively, considering the nature of the issues raised when appointing an investigator. In cases of harassment, we will consider the characteristics of the investigating officer, and if appropriate, discuss this with you before appointing an investigator. We will use appropriate information to assess overall levels of discrimination and harassment amongst different groups and will feed into the appropriate corporate policy review mechanisms to improve policy and practice.

Complaints received via third party

When we receive a complaint from you via an elected member, advocate, or other third party we will direct our response to you and the third party unless you instruct us otherwise.

Complaints received by the Chief Executive

Complaints received by the council's Chief Executive will be passed to Information Management who will ensure that you are responded to appropriately. Service level queries will be directed to the relevant service.

Complaints relating to more than one council service

Where a complaint includes issues for more than one part of the council, we will aim to provide you with a single response whenever possible.

Complaints against members of staff

If you have an issue about a member of staff, we will investigate and take appropriate action in accordance with our internal procedures.

Anonymous complaints

Anonymous complaints will be investigated as far as possible, and a record of the complaint kept.

Dealing with complainant's unreasonable behaviour

There are a small number of customers whose behaviour we feel is unreasonable in pursuing the resolution of their complaint. An Unreasonable Behaviour Policy exists to deal with these instances and explains our approach.

Continuous Development

Performance statistics and complaint outcomes will be shared with our Corporate Management Team on a quarterly basis to promote continuous development and service improvements.

For Landlord & Tenant complaints – anonymised case studies may additionally be shared with Your Voice (resident engagement group).

Policy Review

This policy was adopted by the Audit & Governance and will be reviewed after one year by the Group Head of Law & Governance.

What we cannot deal with under this policy

Requests for service or information

As an example, if you request a repair to a council property or witness flytipping – these are alerting us to work that needs to be done. These requests may however become a complaint if we do not deal with them appropriately.

Appeals procedures

If an appeals procedure applies to your complaint, we will refer you to this and notify you of our actions at the outset.

Appeals procedures must be completed before we can investigate any other issues you raise with us. If this is the case, we will let you know.

The following are examples of complaints where there is an appeals process and so we will not deal with them under this policy: -

- Issuing of penalty charges – eg parking tickets and the recovery process
- A decision on a planning application
- Housing allocation scheme (Housing Register)
- An eviction decision
- Review of homelessness decision
- Entitlement to housing benefit
- A decision about council tax support
- An enforcement notice
- A decision to refuse to issue a licence

Current enforcement action in place

Where a live enforcement case is ongoing and under investigation, the enforcement case must be brought to conclusion before any complaint can be submitted.

Complaints regarding issues that occurred over 12 months ago

We would not normally investigate complaints about something that happened more than a year ago, unless there are exceptional circumstances.

Complaints about Councillors

To make a complaint about a Councillor, please refer to our website for further advice.

Complaints against the Monitoring Officer, Data Protection Officer, or Section 151 Officer

Any concerns relating to the above roles are not appropriate to manage through the Complaints process and will be managed on an individual basis.

Allegations of fraud, theft or corruption by a member of our staff

We are committed to being open and accountable for our staff. Please refer to our website for further advice.

Where legal proceedings are involved

When a legal challenge is being made regarding whether a decision, action or lack of action is lawful. This is a separate process to the Ombudsman so will not be considered under the complaint policy.

Employment issues

Complaints made by our employees concerning their employment with us, or from job applicants who wish to complain about our recruitment and selection process will be dealt with by the relevant recruiting manager or HR as applicable. Policies that may be applicable here are Dignity at Work and Grievance.

Complaints about Freedom of Information (FOI) requests (Internal Review)

These complaints will be handled by the Information Governance Manager. In cases where we decided not to provide the information to you, the Manager must consider advice from the information management service. The Manager will notify you of the outcome of our investigation within 20 working days of receipt of your complaint.

If we cannot respond in full within this timeframe, we will advise you why we need more time. Under legislation, we must ensure that we respond fully to you within 40 working days from receipt of your complaint.

There is no further right of appeal to the council following this investigation. Within our response we will inform you of your right to take your complaint further if you remain dissatisfied. Our response will contain the contact details for the Information Commissioner www.ico.gov.uk.

Complaints about Environmental Information Regulations (EIR) requests (Internal Review).

Under the EIR 2004, you can ask us to reconsider an information request. You can make representations to us in writing about this no later than 40 working days after the date you think we have failed to comply with the EIR.

These complaints will be handled by the Information Governance Manager. We have to consider your representations and any supporting evidence produced by you and decide if we have complied with the EIR requirements.

The Manager must consider advice from the information management service. The Manager will notify you of the outcome of our investigation as soon as possible, and no later than 40 working days after receipt of your complaint.

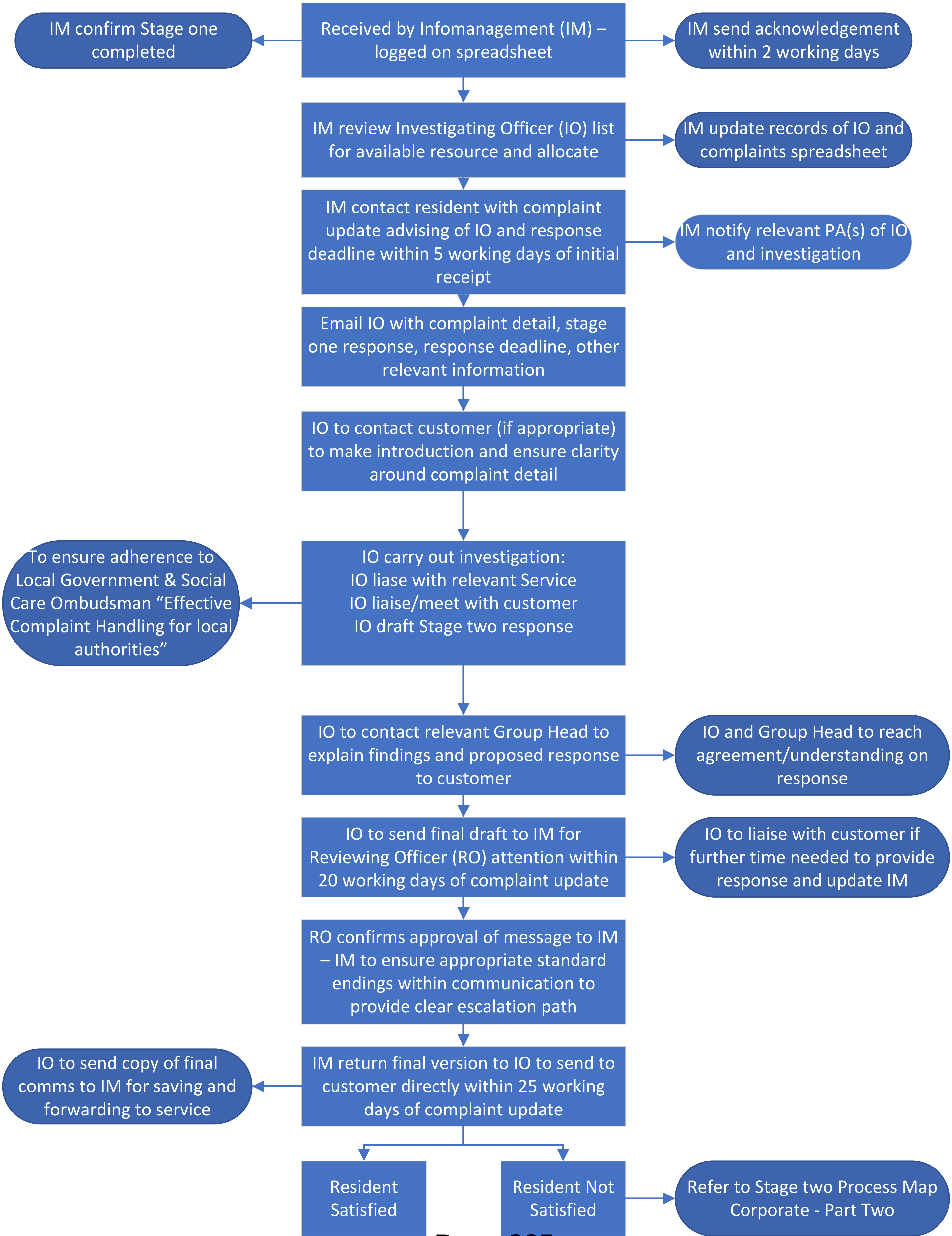
There is no further right of appeal to the council following this investigation. Within our response we will inform you of your right to take your complaint further if you remain dissatisfied. Our response will contain the contact details for the Information Commissioner, as above.

Complaints about Data Protection (GDPR and DPA 2018)

In relation to individual rights' requests under the GDPR the council has 1 month in which to respond although this can be extended by a further 2 months if the request is complex or we have received a number of requests from the requester. Whilst there is no statutory requirement to investigate complaints about how the council has responded to such a request, we are committed to trying to resolve all such complaints. Any such complaints will be handed by a senior officer and advice must be sought from the information management service.

There is no further right of appeal to the council following this investigation. You are entitled to complain to the Information Commissioner if you consider that there has been an infringement of data protection legislation.

Stage two Complaint Process – Corporate Complaint - Part one



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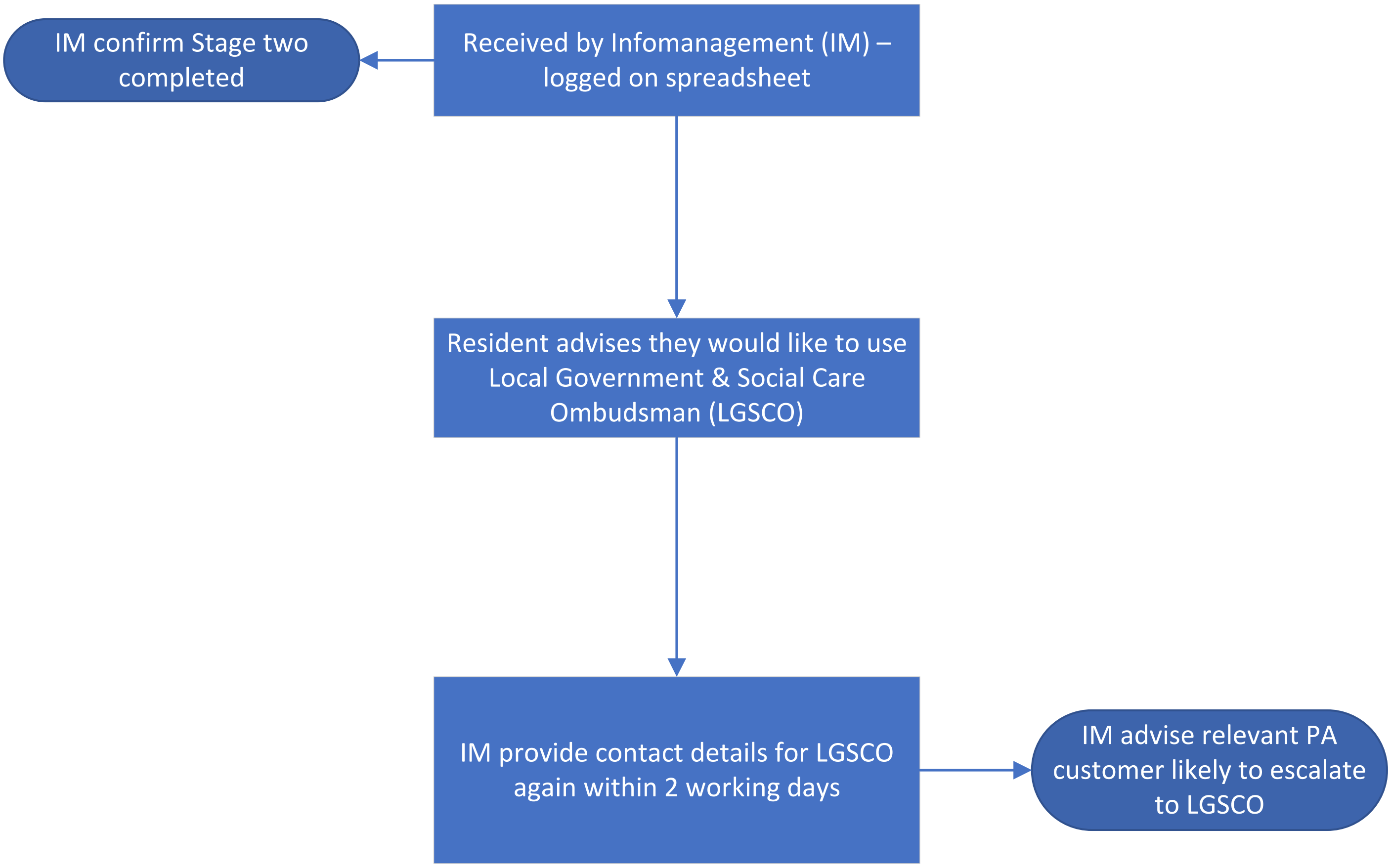
Local Government & Social Care Ombudsman escalation Process
Corporate Complaints – Part two



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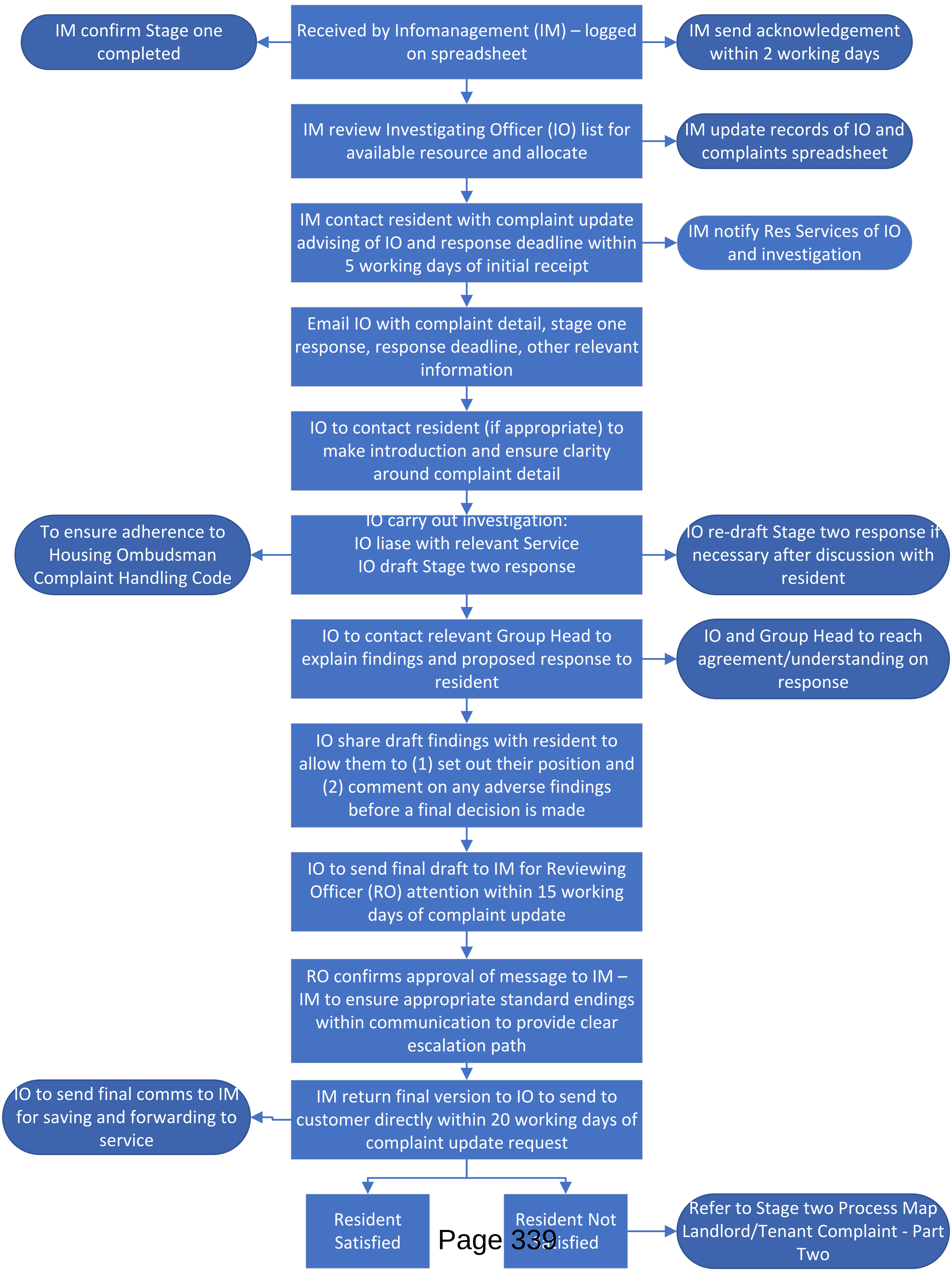
Stage two Complaint Process – Landlord/Tenant Complaint - Part one



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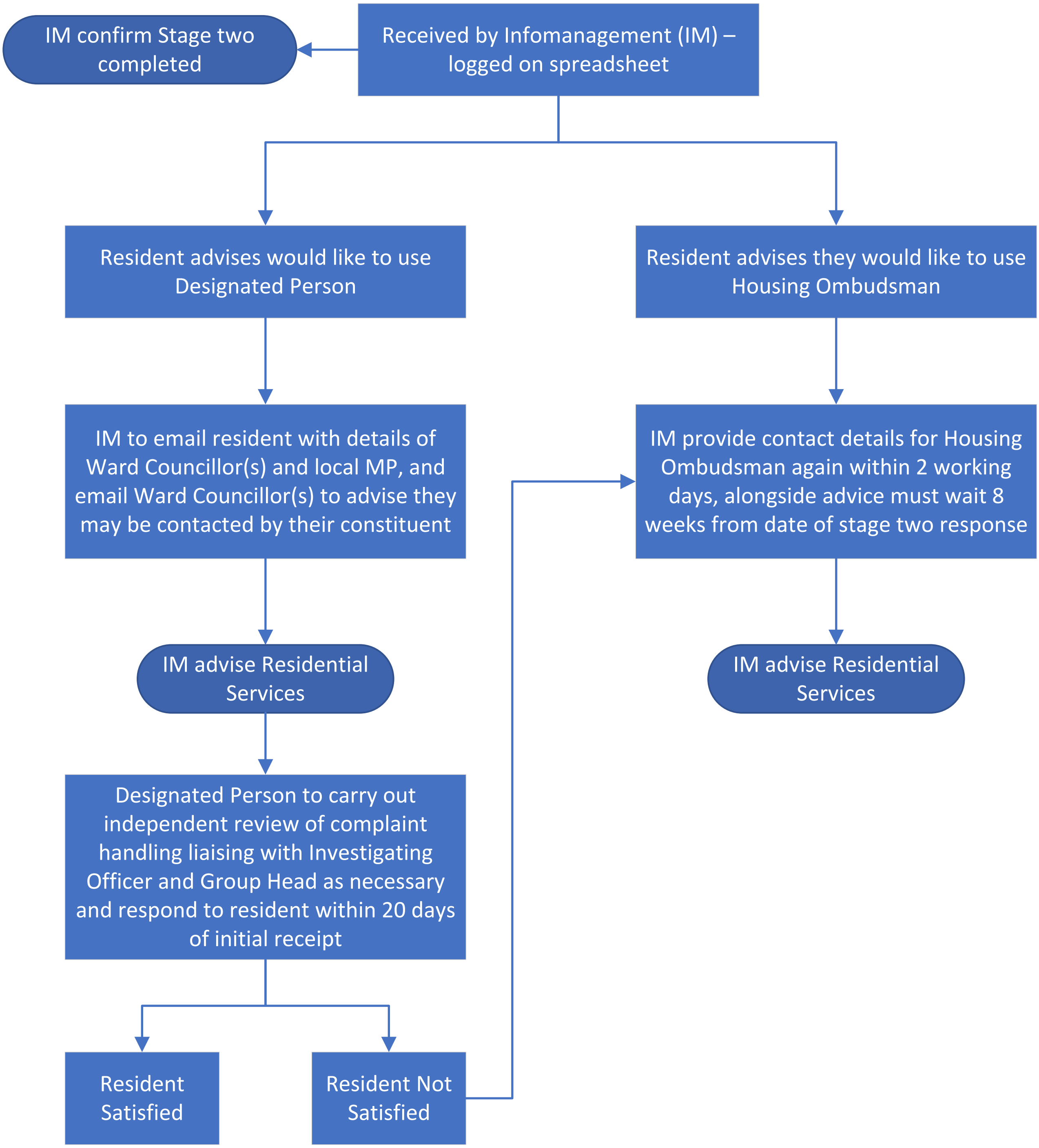
Designated Person & Housing Ombudsman escalation Process
Landlord/Tenant Complaints – Part two



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Housing Ombudsman Factsheet – taken from website

What to do when you receive a complaint about housing

As a designated person, you can help resolve complaints locally without the need for further intervention or investigation by the Housing Ombudsman. You can also refer complaints for investigation by the Ombudsman. This fact sheet aims to provide guidance on both approaches.

How to help resolve a complaint

It is always best to start by defining the complaint and its possible resolution. MPs, local councillors or tenant panels receiving complaints may find it useful to begin by asking the following questions:

- <u>What action(s) has the landlord taken, or not taken, which the resident wishes to complain about?</u> It is important to understand the resident's position about what has gone wrong and the effect this has had on them in their home. A clear understanding of this can help both you and the complainant in answering the next question.

- <u>What does the resident think the landlord should do to put things right?</u> The resident's required outcome might not be related to the action or omission they are complaining about. This is fine if a settlement can be agreed between the parties that resolves the dispute.

You may have an idea about another action which could be taken to resolve the outstanding dispute, or another way in which they can achieve their required outcomes. Discuss this with the resident and see what they think. Your intervention or a referral to us might not be the best way for the resident to achieve the result they are seeking.

A landlord can respond much more effectively if the complainant is as specific as possible about what they want the landlord to do. If the required outcomes are not within the landlord's abilities or obligations to provide, it can respond with a clear 'yes' or 'no' and a reasonable explanation which can help manage a resident's expectations.

Has the resident already contacted the landlord, and/or made a formal complaint to the landlord about the matter?

If the resident has not yet contacted the landlord about the matter, consider whether they should first ask the landlord for a service. For example, it would be unreasonable to complain about the landlord's response to reports of a dripping tap if the resident has not yet reported the dripping tap to the landlord.
The use of the landlord's formal complaints procedure is the first step towards resolving a dispute about the service provided by the landlord in response to a request for a service. It might be useful to obtain a copy of the landlord's complaints procedure for you and the resident to refer to.

We expect the parties to have attempted to resolve a dispute using the formal complaints procedure before intervening. We also expect complaints to be brought to the landlord's attention within a reasonable period (normally six months) of the matter complained about arising.

If the landlord has delayed unreasonably in responding to the formal complaint, a letter or email from you or from the Ombudsman might encourage it to respond within a reasonable timescale.

What has the landlord done about the complaint so far? Why is the resident dissatisfied with the landlord's response to date?

Some aspects of the dispute may have already been resolved. If so, the focus should be on resolving the outstanding aspects of the dispute.
Contact the landlord
Once the complaint and the resident's required outcomes are clear, you can contact the landlord on the resident's behalf.

You should set out the complaint and required outcomes clearly and briefly. You should make it clear that you expect a response within a reasonable timescale – we would suggest allowing three weeks / 15 working days – and ask the landlord to respond to you or to the resident with a copy to you.

If the landlord delays unreasonably in responding to you and/or the resident, please contact us for further advice and assistance.

Referring the complaint to the Ombudsman

If the landlord has responded to the complaint at the final stage of its complaints procedure, we would encourage you to intervene in the manner described above or in any other way which you think might resolve the outstanding dispute. However, at this stage you can also refer the complaint to us for investigation.

The law says that when the designated person refers a complaint to the Ombudsman, it must be in writing. We have created a template letter (see Helpful Links) which you can use to refer a complaint to us.

We will need a copy of the landlord's final response to the complaint or confirmation that the complaint will not be considered through its complaints procedure, and a description of the outstanding dispute.

We will acknowledge your referral and contact the resident directly. If we cannot investigate the complaint, we will contact you to let you know why. Otherwise, we will write to you at a later date to let you know the outcome of the investigation (our determination).

We can advise designated persons on good practice. If you have any questions regarding the advice in this fact sheet, about our general approach or would like advice or guidance in any individual case, please contact us on 0300 111 3000 or email info@housing-ombudsman.org.uk.

What is a Designated Person? – taken from Housing Ombudsman website

Members of parliament (MPs), local councillors or Tenant Panels may receive housing-related complaints from tenants or leaseholders of a registered provider of social housing such as a housing association or local authority. They may then act as a ‘designated person’.

This designated person role officially begins when a complaint has been responded to at the final stage of a landlord’s complaints procedure, although MPs and local councillors can often be involved prior to this stage.

The role of the designated person is to help resolve the complaint in one of two ways:

- try and resolve the complaint themselves in any way they see fit
- refer the complaint straight to the Ombudsman if it has exhausted a landlord’s complaints procedure.

The law (Localism Act 2011) says that when the designated person refers a complaint to the Ombudsman, it must be in writing. A designated person may also refuse to refer a complaint; however, we can still accept the complaint if this refusal is made in writing.

A resident does not have to contact a designated person or obtain a written referral or refusal of their complaint. They can refer the complaint to us themselves, but the law says that eight weeks must have passed from the date of the landlord’s final response to the complaint before we can consider the case.

Although we can advise designated persons on good practice in complaint handling, we have no jurisdiction over designated persons and no authority to regulate or produce guidance for their selection, activity or conduct. If the problem is still not resolved following the intervention of the designated person either they or the resident can refer the complaint to us.

If you are an MP or local councillor and one of your constituents has contacted you regarding a housing complaint, you may find our fact sheet useful - see Helpful links. If you are a member of a Tenant Panel, you may find guidance from CIH and Tpas useful (see Helpful links).

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AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2022/2023

Date of Meeting: 22 February 2022		
Subject	**Lead Officer / Member**	**Comments**
Statement of Accounts		
Final Statement of Accounts 2020/21	Financial Services Manager	
Final Annual Governance Statement	Internal Audit Manager	
Accounting Policies for 2021/22 Accounts	Financial Services Manager	If CIPFA advise of any changed requirements, then an update will be provided at the next meeting
External Audit		
Audit Results Report	Ernst & Young	
Treasury Management		
Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (9 March 2022)
Internal Audit		
Annual Internal Audit Plan	Internal Audit Manager	
Progress Against The Audit Plan	Internal Audit Manager	
Other Items		
Feedback & Complaints Policy	Group Head of Law & Governance	
Progress update on housing tenancy fraud	Neighbourhood Services Manager	Requested by the Committee at its July 2021 meeting
Work Programme		
To agree the rolling work programme for 2022/23	Internal Audit Manager	

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31 March each year

AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2022/2023

Date of Meeting: (TBC)		
Subject	**Lead Officer / Member**	**Comments**
Statement of Accounts		
Draft Annual Governance Statement	Internal Audit Manager	Draft version to be considered by Committee (final version will be presented with the Annual Accounts)
External Audit		
Auditor's Annual Report	Ernst & Young	TBC
Audit Planning Report	Ernst & Young	TBC - Covering the audit of the 2021/22 Accounts
Response to E&Y on annual assurance letter regarding governance arrangements	Committee Chair	Letter agreed with the Chair and sent to external audit in April
Governance Framework		
Local Code of Corporate Governance	Internal Audit Manager	
Treasury Management		
Treasury Management Annual Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (TBC)
Internal Audit		
Annual Internal Audit Report & Opinion	Internal Audit Manager	
Progress Against The Audit Plan	Internal Audit Manager	
Other Items		
Annual Counter-Fraud Report	Internal Audit Manager	
Chair's Annual Report To Council	Committee Chair	To be presented to Full Council
Annual update on use of RIPA powers in the previous Municipal Year	Internal Audit Manager	
Annual update on housing tenancy fraud	Neighbourhood Services Manager	Requested by the Committee at its July 2021 meeting
Work Programme		
To agree the rolling work programme for 2022/2023	Internal Audit Manager	Updates, etc.

AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2022/2023

Date of Meeting: (TBC)		
Subject	**Lead Officer / Member**	**Comments**
Statement of Accounts		
Final Statement of Accounts 2020/21	Financial Services Manager	TBC – if audit has been completed
Final Annual Governance Statement	Internal Audit Manager	TBC
External Audit		
Audit Results Report – ISA 260	Ernst & Young	TBC – if audit has been completed
Auditor's Annual Report	Ernst & Young	TBC
Treasury Management		
Treasury Management Mid-Year Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (TBC)
Internal Audit		
Progress Against The Audit Plan	Internal Audit Manager	
Governance Framework		
Updated Strategic Risk Register 2022/23	Internal Audit Manager	
Other Items		
Annual Review Of The Partnerships Register	Group Head of Policy	Requested by the Committee at its November 2021 meeting
Work Programme		
To note the rolling work programme for 2022/23	Internal Audit Manager	Updates, etc.

AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2022/2023

Date of Meeting: (TBC)		
Subject	**Lead Officer / Member**	**Comments**
Statement of Accounts		
Accounting Policies for 2022/23 Accounts	Financial Services Manager	If CIPFA advise of any changed requirements, then an update will be provided at the next meeting
External Audit		
Audit Planning Report	Ernst & Young	TBC - Covering the audit of the 2022/23 Accounts
Treasury Management		
Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (TBC)
Internal Audit		
Annual Internal Audit Plan	Internal Audit Manager	
Progress Against The Audit Plan	Internal Audit Manager	
Work Programme		
To agree the rolling work programme for 2023/24	Internal Audit Manager	

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31 March each year

<u>Other items to be considered in Work Programme:-</u>

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**

(An interim review was conducted in 2020 with recommendations presented at Full Council in January 2021, with a full review due in 2022/23)

Governance & Risk Group updates

Relevant policy reviews, updates, etc.