



# Public Document Pack

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

Tel: (01903 737500)  
Fax: (01903) 730442  
DX: 57406 Littlehampton  
Minicom: 01903 732765

e-mail: [committees@arun.gov.uk](mailto:committees@arun.gov.uk)

Committee Manager Helen Burt (Ext. 37614)

20 February 2023

## AUDIT & GOVERNANCE COMMITTEE

A meeting of the Audit & Governance Committee will be held in **Council Chamber, Arun Civic Centre, Maltravers Road, Littlehampton, BN17 5LF** on **Tuesday 28 February 2023 at 10.00 am** and you are requested to attend.

Members: Councillors Clayden (Chair), Chapman (Vice-Chair), Bennett, Brooks, Chace, Goodheart, Oliver-Redgate, Oppler, Stanley, Tilbrook and Wallsgrove

**PLEASE NOTE:** Where public meetings are being held at the Arun Civic Centre, to best manage safe space available, members of the public are encouraged to watch the meeting online via the Council's [Committee webpages](#).

1. Where a member of the public wishes to attend the meeting or 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, but of course can attend the meeting in person.
2. We request members of the public do not attend any face to face meeting if they 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](mailto:Committees@arun.gov.uk) by 5.15 pm on **Monday, 20 February 2023** in line with current Committee Meeting Procedure Rules.

It will be at the Chief Executive's/Chair's discretion if any questions received after this deadline are considered.

For further information on the items to be discussed, please contact [Committees@arun.gov.uk](mailto:Committees@arun.gov.uk).

## AGENDA

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

Members and Officers are invited to make any declaration 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 items 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 - 4)

The Committee will be asked to approve as a correct record the Minutes of the Audit & Governance Committee held on 29 November 2022.

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. MEMBERS' ALLOWANCES - EXTENSION OF APPOINTMENTS FOR THE INDEPENDENT REMUNERATION PANEL

(Pages 5 - 8)

This report seeks the Committee's approval to extend the terms of office for all five members of the Independent Remuneration Panel until 31 March 2024.

[10 Minutes]

7. AUDIT RESULTS REPORT (Pages 9 - 52)  
The Audit Results Report will be presented to Members of the Audit & Governance Committee by representatives from Ernst & Young LLP.  
[15 Minutes]
  
8. ANNUAL STATEMENT OF ACCOUNTS 2021/22 AND LETTER OF REPRESENTATION (Pages 53 - 186)  
The purpose of this report is for this Committee to consider and approve the Financial Statement of Accounts for 2021/22.  
[20 Minutes]
  
9. FINAL ANNUAL GOVERNANCE STATEMENT 2021/22 (Pages 187 - 218)  
This report presents the final Annual Governance Statement for 2021/22 which is required to accompany the audited Annual Accounts. The draft Annual Governance Statement was noted by the Committee at its July 2022 meeting  
[10 Minutes]
  
10. UPDATE ON APPOINTMENT OF EXTERNAL AUDITOR (Pages 219 - 222)  
This report sets out the current position regarding the appointment of an external auditor to the Council for the 5-year period from 2023/24 to 2027/28  
[5 Minutes]
  
11. INTERNAL AUDIT CHARTER 2023/24 (Pages 223 - 236)  
The Internal Audit Charter is a formal document that defines the internal audit activity's purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Public Sector Internal Audit Standards require the charter to be reviewed and approved annually.  
[15 Minutes]

12. INTERNAL AUDIT ANNUAL PLAN 2023-24 (Pages 237 - 250)

The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements. This report presents the plan for 2023/24 for approval by the Committee.  
[15 Minutes]

13. INTERNAL AUDIT PROGRESS JANUARY 2023 (Pages 251 - 262)

The report outlines the progress of the Council's Internal Audit service against the approved Internal Audit Plan for 2022/23 from 1 April 2022.  
[10 Minutes]

14. TREASURY MANAGEMENT - STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2023/24 (Pages 263 - 312)

This TMSS/AIS report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2021. CIPFA published the updated Treasury Management and Prudential Codes on 20<sup>th</sup> December 2021 and has stated that after a soft introduction of the Codes, Local Authorities are expected to fully implement the required reporting changes from 2023/ 24.  
[20 Minutes]

15. APPROVAL OF ACCOUNTING POLICIES 2022/23 (Pages 313 - 334)

The report allows the Audit and Governance Committee to consider and approve the accounting policies that will be applied to the Statement of Accounts 2022/23 for approval by the Committee. At the time of writing this report the deadline for completion of the draft accounts is 31 July 2023 and approval of the final audited accounts 30 September 2023. Members will be updated if there are any changes to these dates.  
[5 Minutes]



16. PROGRESS UPDATE ON HOUSING TENANCY FRAUD (Pages 335 - 338)

At the Audit and Governance Committee meeting the Committee requested that an update report be provided to the Committee on Housing Fraud.  
[20 Minutes]

17. WORK PROGRAMME (Pages 339 - 342)

The Committee is required to note the Work Programme for 2022/23.  
[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](#)

This page is intentionally left blank

# Agenda Item 3

Subject to approval at the next Audit & Governance Committee meeting

305

## AUDIT & GOVERNANCE COMMITTEE

29 November 2022 at 10.00 am

Present: Councillors Clayden (Chair), Chapman (Vice-Chair), Brooks, Chace, Gregory (Substitute for Bennett), Oliver-Redgate and Wallsgrove

### 459. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillors Bennett, Goodheart, Oppler and Stanley.

### 460. DECLARATIONS OF INTEREST

There were no Declarations of Interest made.

### 461. MINUTES

The Minutes of the meeting held on 29 September 2022 were approved by the Committee. These would be signed at the end of the meeting.

### 462. 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

The Chair confirmed that there were no urgent matters for this meeting.

### 463. PUBLIC QUESTION TIME

The Chair confirmed that no questions had been submitted for this meeting.

### 464. INTERNAL AUDIT PROGRESS REPORT

The Chair welcomed Iona Bond, Senior Audit and Counter Fraud Manager, from Southern Internal Audit Partnership (SIAP), who then presented the progress report to the Committee. She explained it was the same standard report presented at the previous Committee meeting, and that it was progressing well. A further update was provided that under Section 7, three further Terms of Reference had now been issued, and there were only two further remaining for Quarter 3, which should be issued in the near future. There were no further changes to report to Committee.

Audit & Governance Committee - 29.11.22

The Chair then invited Member questions. SIAP were thanked for their clear and informative report. It was asked whether under Section 7, on improving the wellbeing of Arun, was Homelessness and Housing Advice scoped within the Plan? The Senior Audit and Counter Fraud Manager from SIAP confirmed that the Homelessness and Housing Advice Audit was scheduled for Quarter 4, and they would be looking to scope this in January.

The Committee noted the report.

#### 465. RISK MANAGEMENT FRAMEWORK

Upon the invitation of the Chair, the Interim Group Head of Finance and Section 151 Officer presented the report to the Committee. She explained the Council's existing Risk Management Policy Statement and Strategy had been reviewed and as a result a new Risk Management Framework had been developed. It was impossible to remove all risk, which could result in lost opportunities, however the Council needed to understand the risks faced and take appropriate mitigation if a risk was above the accepted level. To help with the understanding of the risk score a fundamental difference in the new approach was that the risks were now shown as gross and after mitigations and controls had been applied, which gave a clearer view of the residual risk. Management and Members could then decide if additional controls/mitigations were necessary and whether they were value for money. She updated that the Risk Management training for the Senior Management Team and some other managers had recently taken place.

The Chair then invited Member questions. A question was asked regarding Housing Repairs, and whether this may be influenced by the ruling on mould. The Chair explained this would come under the remit of the Housing & Wellbeing Committee.

Members thanked the Interim Group Head of Finance and Section 151 Officer and the Finance & Risk Manager for such an excellent report, which was thorough and transparent.

The recommendation was Proposed by Councillor Chace and Seconded by Councillor Gregory.

The Committee

RESOLVED

That the Audit and Governance Committee adopts the Risk Management Framework as set out in Appendix 1 of this report and authorises the Interim Group Head of Finance & Section 151 Officer to make minor amendments.

466. CORPORATE RISK REGISTER

Upon the invitation of the Chair, the Interim Group Head of Finance and Section 151 Officer presented the report to the Committee. She explained that the new style Corporate Risk Register had now been completed. This was a living document that would be reviewed by the Corporate Management Team at the Performance Board on a monthly basis, together with Performance Indicators and Budget Monitoring. The Corporate Risk Register was summarised on page 49. She highlighted that there were a significant number of red risks, which was partially due to the very dynamic economic conditions in which the Council was operating, with the high level of inflation affecting existing contracts and projects, the pay award, cost of living crisis and labour shortages.

There were no questions from Members.

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

The Committee

RESOLVED

That the new Corporate Risk Register be adopted.

467. TREASURY MANAGEMENT - MID-YEAR REVIEW REPORT 2022/23

Upon the invitation of the Chair, the Interim Group Head of Finance and Section 151 Officer presented the report to the Committee. She explained that following on from the previous two reports one of the mitigations in relation to the additional expenditure due to inflationary pressures, was that the higher interest rates were resulting in increased investment income that the Council were receiving on balances. The report stated that at the end of Quarter 2, the annual budget had already been exceeded with receipts of £500k against a whole year budget of £370k. This allowed the Council some flexibility for the current year, however this would not be sufficient to balance the increase in expenditure in future years. The Interim Group Head of Finance and Section 151 Officer explained how dynamic the economic outlook currently was. The Council was holding more cash than anticipated which was as a result of Covid-19 grants that had yet to be repaid and other government initiatives which were funded up front like the energy rebates. Arun was currently outperforming the benchmark which was set at 1.22%, as Arun was at 1.58%. Arun held £5m in the CCLA property fund which was returning 3.77%; and £2m in the multi asset fund - CCLA Diversified Fund which was returning 3.09%

Audit & Governance Committee - 29.11.22

The Chair then invited Member questions. One Member asked about investments in areas that may have potential human rights concerns. The Interim Group Head of Finance and Section 151 Officer explained that investments were made based on the credit worthiness of the financial institution. This was based on credit ratings which was essentially the ability to repay any loans. Going forward this would be looked at more widely to ensure information regarding human rights concerns were considered.

The Chair highlighted that the Council had received £500k in interest. He noted that Arun paid £600k per year in interest for the Public Works Loan, and that it was close to a negative spend on interest across the Council.

The recommendation was Proposed by Councillor Chace and Seconded by Councillor Gregory.

The Committee

RECOMMEND TO FULL COUNCIL that

- 1) the actual prudential and treasury indicators for 2022/23 contained in the report be approved;
- 2) the treasury management mid-year review (this report) for 2022/23 be noted;
- 3) the treasury mid-year activity for the period ended 30 September 2022, which has generated interest receipts of £500,000 (1.58%) year to date, against a budget of £370,000 (0.84%) for the full year, be noted.

468. WORK PROGRAMME

The Committee noted the Work Programme.

(The meeting concluded at 10.21 am)

|  |   |
|--|---|
| <b>REPORT TO:</b>  | <b>Audit &amp; Governance Committee – 28 February 2023</b>                                    |
| <b>SUBJECT:</b>  | <b>Members’ Allowances – Extension of Appointments for the Independent Remuneration Panel</b> |
| <b>LEAD OFFICER:</b>   | <b>Daniel Bainbridge – Group Head of Law &amp; Governance and Monitoring Officer</b>          |
| <b>LEAD MEMBER:</b>  | <b>Councillor Mike Clayden</b>  |
| <b>WARDS:</b>  | <b>All</b>  |
| <b>CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:</b>   |   |
| The Local Authorities (Members Allowances) Regulations 2003 Section 20 requires any District Council to have an Independent Remuneration Panel properly appointed before it can undertake any review of that authority’s Members’ Allowances Scheme. |   |
| <b>DIRECTORATE POLICY CONTEXT:</b> The Chief Executive has responsibility to ensure that the Council’s Independent Remuneration Panel is legally appointed.  |   |
| <b>FINANCIAL SUMMARY:</b> No financial implications are identified.  |   |

**1. PURPOSE OF REPORT**

- 1.1 The Committee has responsibility for reviewing Councillor Allowances based on reports received from the Council’s Independent Remuneration Panel created under the Local Authorities (Members Allowances) Regulations 2003.
- 1.2 This report seeks the Committee’s approval to extend the existing appointments of all five members of the Independent Remuneration Panel which expire on 31 March 2023 to allow the Panel to commence work on undertaking its next review of the Members’ Allowances Scheme following the District Elections to be held in May 2023.
- 1.3 These extensions are required to also allow the Panel to consider the Allowances Scheme for Parish and Town Councillors. The Panel will be undertaking a separate review once the District Council review has been concluded.

**2. RECOMMENDATIONS**

It is recommended that the Committee:

- 1.1. Agrees to extend the terms of office for all five members of the Independent Remuneration Panel until 31 March 2024; and
- 1.2. Recommends to the Constitution Working Party that it considers recommending to Full Council that an additional delegation be granted to the Chief Executive (regarding appointments to the Independent Remuneration Panel) as per the proposed wording set out at Paragraph 4.5 of the report.

### **3. EXECUTIVE SUMMARY**

- 1.3. This report seeks the Committee's approval to extend the terms of office for all five members of the Independent Remuneration Panel until 31 March 2024.

### **2. DETAIL**

- 2.1. The Audit & Governance Committee's specific functions as set out in Part 3 of the Council's Constitution [Responsibility for Functions] states that the Committee shall also exercise the following specific functions by or on behalf of the Council:

- Approving arrangements for establishing an Independent Remuneration Panel, in accordance with statutory requirements, and instructing the Chief Executive to make any appointments to the Panel in line with their delegated authority at Part 3, Section 2 of this Constitution.
- Overseeing the work of the Independent Remuneration Panel in its periodic consideration of Members Allowances.
- Reviewing and considering the Member Allowances Scheme based on reports from the Independent Remuneration Panel and making recommendations to the Full Council as required.

- 4.2 By asking the Committee to approve extending the appointments now, the terms of office for the Independent Remuneration Panel can be extended immediately from 31 March 2023 to 31 March 2024. This approval is required now as this is the last meeting of this Committee in this Municipal Year. The next meeting of this Committee is not scheduled until the end of July 2023, which will be too late to begin the review process.

- 4.3 The Monitoring Officer had identified a gap in the Constitution in that "Part 3, Section 2" referred to in the first bullet point of 4.1 above, does not appear within the Constitution. This appears to be a referencing error, and the Chief Executive's delegations at Part 4 of the Constitution should contain this delegation but currently does not. However, it is clear that the intention of Full Council was for this matter to be delegated to the Chief Executive.

- 4.5 To correct this, the Committee is requested to recommend to the next meeting of the Constitution Working Party:

"After consultation with and agreement of the Chair of the Audit & Governance Committee, to appoint members of the Independent Remuneration Panel for Members' Allowances and be able to extend their term of office.

Should the Chief Executive consider that the appointment of any Independent Remuneration Panel member for the Members' Allowances Scheme be changed or terminated, the Chief Executive will consult with the Chair of the Audit & Governance Committee prior to making a final decision".



### **3. OPTIONS / ALTERNATIVES CONSIDERED**

- 3.1. No feasible alternative options exist. The terms of office of the Panel need to be extended to allow the Panel to start its next review of the Members' Allowances Scheme following the District Elections in May 2023.

### **4. COMMENTS BY THE GROUP HEAD OF FINANCE/SECTION 151 OFFICER**

- 4.1. The report has no financial implications.

### **5. RISK ASSESSMENT CONSIDERATIONS**

- 5.1. No risk assessment considerations are necessary.

### **6. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER**

- 8.1 The legal and governance implications of this decisions are set out within the body of the report.

### **7. HUMAN RESOURCES IMPACT**

- 9.1 No impact assessment is necessary.

### **8. HEALTH & SAFETY IMPACT**

- 10.1 No impact assessment is necessary.

### **9. PROPERTY & ESTATES IMPACT**

- 11.1 No impact assessment is necessary.

### **10. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE**

- 12.1 No impact assessment is necessary.

### **11. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE**

- 13.1 No impact assessment is necessary.

### **12. CRIME AND DISORDER REDUCTION IMPACT**

- 14.1 No impact assessment is necessary.

### **13. HUMAN RIGHTS IMPACT**

- 15.1 No impact assessment is necessary.

### **14. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS**

- 16.1 No impact assessment is necessary.

---

**CONTACT OFFICER:**

Name: Daniel Bainbridge  
Job Title: Group Head of Law & Governance and Monitoring Officer  
Contact Number: 01903 737607

**BACKGROUND DOCUMENTS:** None

# Arun District Council Audit results report

Year ended 31 March 2022

February 2023

Page 9

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow triangle pointing to the right. The logo is positioned in the bottom right corner of the page, partially overlapping the EY tagline and the agenda item text.

Building a better  
working world

Agenda Item 7



Members of the Audit & Governance Committee  
Arun District Council  
Maltravers Road  
Littlehampton  
West Sussex  
BN17 5LF

13 February 2023

Dear Audit & Governance Committee Members

2021/22 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.

The audit is designed to express an opinion on the 2022 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.

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 28 February 2023.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents

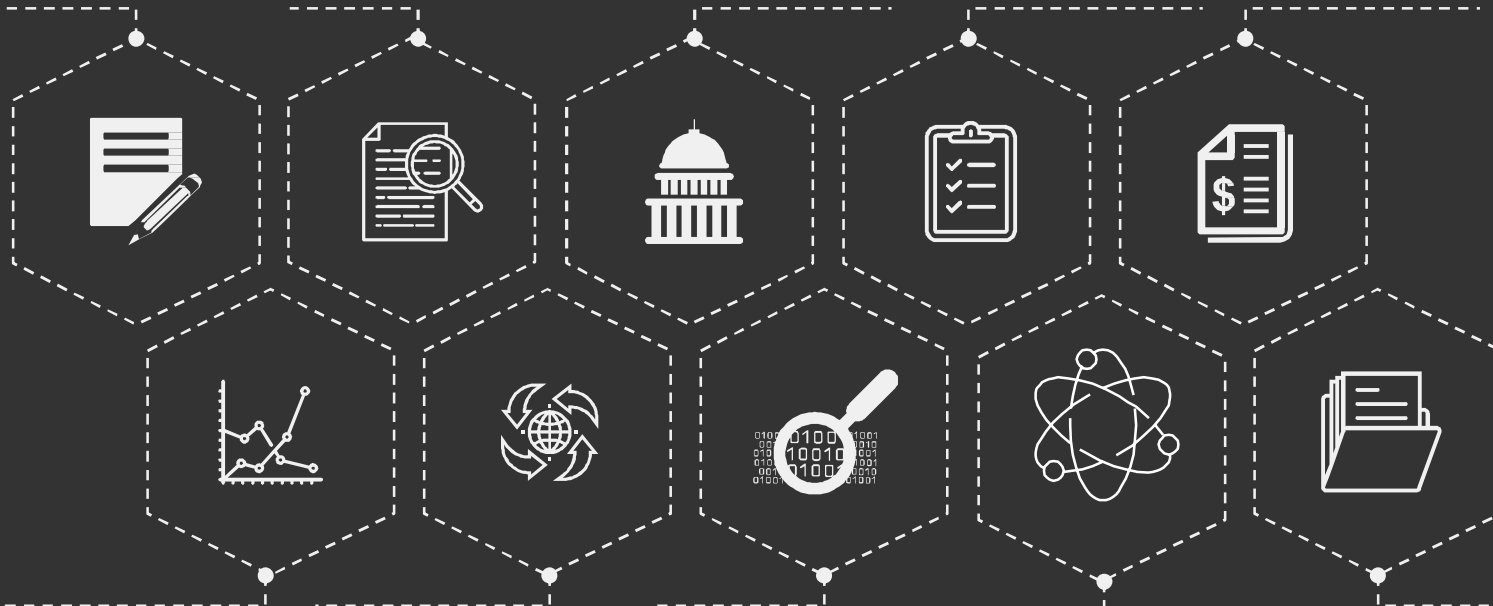
01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences

05 Value for Money



06 Other Reporting Issues

07 Assessment of Control Environment

08 Data Analytics

09 Independence

10 Appendices

Page 11

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/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 July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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 report presented at the 28 July 2022 Audit & Governance Committee meeting, 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 amendments:

- Changes in materiality

We updated our planning materiality assessment using the draft financial statements. We also reconsidered our risk assessment and confirmed the basis for materiality continues to be appropriate.

|          | Planning Materiality | Performance Materiality | Audit Differences |
|----------|----------------------|-------------------------|-------------------|
| Planning | £2.015 million       | £1.511m                 | £0.101m           |
| Final    | £2.103 million       | £1.577m                 | £0.105m           |

## Portfolio heading changes

We noted in 2021/22 the Council have updated the Cost of Services headings within the Statement of Comprehensive Income and Expenditure in order to be in line with the new service line structure which was updated in 2021/22. In order to allow the user of the financial statements to compare one year to the next, the prior year figures have been restated in the CIES and EFA to reflect these updated service lines. We have reviewed the changes and performed testing on the remapping of the prior year figures to confirm the restatement has been completed correctly.



# Executive Summary

## Status of the audit

We have substantially completed our audit of Arun District Council's financial statements for the year ended 31/3/2022 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:

- Final manager and partner review of completed audit work
- Completion of VfM review
- Receipt of the Letter of Representation
- Receipt of the final, approved, accounts.
- Completion of audit procedures to assess potential events after the balance sheet date, up to the date of signing the audit report.

Page 14

## Auditor responsibilities under the 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 has been significantly completed. We can confirm at this stage 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 2021/22 allows the Auditors Annual Report to be issued 3 months after giving the opinion on the financial statements.

## Audit differences

Details on audit differences can be found in Section 4 Audit Differences.

Page 15

## 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 do not expect to issue the audit certificate at the same time as the audit opinion. We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based. The audit certificate will be issued once this work is complete.

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

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

*Other Area of Audit Focus: Valuation of Land and Buildings*

- Work in this area is complete substantially complete subject to final review – 2 assets identified as being outside of the EY's calculated range (total difference £251k).

*Other Area of Audit Focus: Pension Liability Valuation*

Work in this area is complete substantially complete subject to final review – We have identified a difference of £270k between the estimated gross asset value compared to our estimate from the audited values at the pension fund.

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.

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.

## Independence

Please refer to Section 9 for our update on Independence.



## 02 Areas of Audit Focus



# 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.



#### 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 are our conclusions?

Our audit work to date has not identified any material issues, inappropriate judgements or unusual transactions which indicated that there had been any misreporting of the Council's financial position, or that management had overridden controls.

#### What did we do?

We carried out the following procedures:

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.



## Significant risk

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

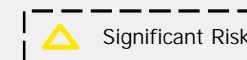
### What is the risk?

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.



Page 20

### 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

### 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.



## Areas of Audit Focus

### Other areas of audit focus

#### Valuation of Land and Buildings

##### What is the risk?

Property, Plant and Equipment land and buildings (L&B) 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 L&B and IP 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.



Page 21

##### 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.



## Areas of Audit Focus

### 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 2021/22 to confirm that the remaining asset base is not materially misstated;

Considered changes to useful economic lives as a result of the most recent valuation; and

Tested accounting entries have been correctly processed in the financial statements

Page 22

#### What are our conclusions?

Our work in this area is complete subject to final review.

We have identified 2 assets which have a judgemental difference between the valuers valuation and our assessment of a reasonable valuation range. However, we consider the overall valuation to be materially correct.

- The Arcade Bognor Regis - judgemental difference in the application of yields resulting our conclusion that the asset is overstated. A similar difference was raised in the prior year Audit Committee when presenting the 20/21 Audit Results Report.
- Laburnum Centre, Bognor Regis - judgemental difference in the application of yields resulting our conclusion that the asset is overstated.

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.





# Areas of Audit Focus

## Other areas of audit focus

### Pension Liability Valuation

#### What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 require 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 deficit is a material and sensitive item and the Code requires that this liability 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.

#### What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's expert - Barnett Waddingham.
- 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 Barnett Waddingham.

#### 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 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?

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 £270k, 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.



# 03 Audit Report



# 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 (the Council) for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). 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
- Housing Revenue Account Income and Expenditure Statement and the related notes
- Collection Fund and the related notes

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion the financial statements:

- give a true and fair view of the financial position of Arun District Council as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the 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 Responsible Financial (s151) Officer'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 Council'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 Responsible Financial (s151) Officer 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 Council'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 S151 Officer is responsible for the other information contained within the Financial Report

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.



# Audit Report

## 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

Page 26

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 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- 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 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- 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 ended 31 March 2022.

We have nothing to report in these respects

### Responsibility of the Responsible Financial (s151) Officer

As explained more fully in the Statement of Responsibilities set out on page 20, the Responsible Financial (s151) Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Responsible Financial (s151) Officer 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.



# Audit Report

## 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 (as amended),
- 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, inappropriate capitalisation of revenue expenditure and management override of controls and to be our fraud risks.

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

To address our fraud risk of management override of controls, 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. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

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.





# Audit Report

## Draft audit report

### Our opinion on the financial statements

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criterion issued by the Comptroller and Auditor General in December 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the 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 (as amended) 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 on our work on value for money arrangements.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Arun District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) 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 Council and the 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

We highlight the following misstatements greater than £1.58m which have been corrected by management that were identified during the course of our audit. There are no such items to report.

We report to you any uncorrected misstatements greater than our nominal value of £105k.

There are five misstatements to bring to your attention at the time of writing this report, based on the preliminary findings of our local audit team and the Pension Fund auditors.

Page 30

- PPE Valuation (Bognor Regis Arcade) judgemental misstatement (overstatement) of £151k
- PPE Valuation (Laburnum Centre, Bognor Regis) judgemental misstatement (overstatement) of £101k
- Net Pension asset (overstatement) of £270k
- Debtor - Non-Domestic Ratepayers (understatement) £134k
- Provision for doubtful debts (overstatement) £182k

A number of immaterial adjustments in the disclosure notes and associated narrative were also requested.





# 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.

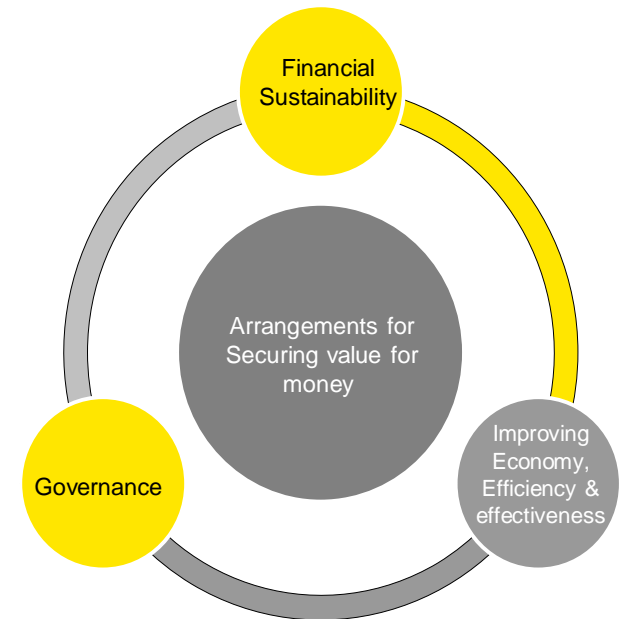
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its 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 in our Audit Plan that our assessment of the risk of significant weaknesses in the Council's VFM arrangements remained ongoing. At this stage of completion of our procedures, we have not identified any risks of significant weaknesses in the Council's arrangements.

We plan to issue the VFM commentary within 3 months of the date of signing the opinion as part of issuing the Auditor's Annual Report.

Page 32





## 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 Financial Report 2021/22 with the audited financial statements

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

Financial information in the Narrative Statement 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 have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based. The audit certificate will be issued once this work is complete.

### Other powers and duties

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

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

### Other matters

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 Data Analytics



## Data analytics – Journal Entries

Analytics Driven Audit

### Data Analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2021/22, our use of these analysers in the Council's audit included gaining a deeper understanding of the data sources which are used in each Significant Class of Transactions and therefore allowing us to tailor our testing accordingly dependant on the nature of the source entries. We tested specific journal entries which we deem to have the highest inherent risk to the audit, including unusual transactions not consistent with the rest of the population.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.





09

# 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 2021 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 2022 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 2022.

## 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, to the right we set out a summary of the fees you have paid us in the year ended 31 March 2022.

| Description                | Final Fee<br>2021/22<br>£ | Planned Fee<br>2021/22<br>£ | Final Fee<br>2020/21<br>£ |
|----------------------------|---------------------------|-----------------------------|---------------------------|
| Scale Fee                  | 43,969                    | 43,969                      | 43,969                    |
| Scale Fee Rebasing (1)     | 30,158                    | 30,158                      | 12,025                    |
| Revised Proposed Scale Fee | 74,127                    | 74,127                      | 55,994                    |
| Scale Fee Variation (2)    | TBC                       | 10,306                      | 12,781                    |
| Total Audit Fee            | TBC                       | 84,433                      | 68,775                    |
| Non Audit Fees – HBAP (3)  | TBC                       | 22,379                      | 22,379                    |

(1) As detailed in our 2020/21 Auditor's Annual Report we have submitted a proposed rebasing of the scale fee. PSAA have approved the 20/21 Scale Fee Variation (including rebasing element) as shown. We continue to record the same rebasing figure for 21/22 as we submitted for 20/21.

(2) For 2021/22, the scale fee will be impacted by a range of factors which has resulted in additional work. The issues we have identified which will impact on the fee include:

- The need to engage EY Pensions to review assumptions used in the Pensions IAS19 liability. Estimated value £1,000.
- Work to review the portfolio heading changes and associated prior year comparator changes. Estimated value £1,500

(3) Our final fee will be driven by the level of errors identified and subsequent additional work requirements to drilldown into these errors. We are currently in the early stages of working on the 21/22 HBAP engagement.

## Other communications

### EY Transparency Report 2022

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

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








# 10 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 2022   |
| Planning and audit approach         | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.<br>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 2022   |
| Significant findings from the audit | <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul> | Audit Results Report – February 2023  |

# 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: <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The appropriateness of related disclosures in the financial statements</li> </ul>   | 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           | <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>  | Audit Results Report – February 2023  |
| Subsequent events       | <ul style="list-style-type: none"> <li>• Enquiry of the Audit &amp; Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>  | Audit Results Report – February 2023  |
| Fraud                   | <ul style="list-style-type: none"> <li>• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit &amp; Governance Committee responsibility.</li> </ul> | Audit Results Report – February 2023  |

# Appendix A

|                                       |  | Our Reporting to you  |
|---------------------------------------|--|---|
| Required communications               | What is reported?  | When and where  |
| Related parties                       | <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>   | Audit Results Report – February 2023  |
| Independence                          | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>  | Audit Results Report – February 2023  |
| External confirmations                | <ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>  | We have received all requested confirmations  |
| Consideration of laws and regulations | <ul style="list-style-type: none"> <li>• 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</li> <li>• Enquiry of the Audit &amp; 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</li> </ul> | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |



# Appendix A

|  |   | Our Reporting to you   |
|--|---|--|
| Required communications  | What is reported?   | When and where   |
| Significant deficiencies in internal controls identified during the audit  | <ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>  | We have not identified any significant deficiencies in internal controls     |
| Written representations we are requesting from management and/or those charged with governance                           | <ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>  | Audit results report – February 2023   |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>                                      | Audit results report – February 2023   |
| Auditors report  | <ul style="list-style-type: none"> <li>Key audit matters that we will include in our auditor’s report</li> <li>Any circumstances identified that affect the form and content of our auditor’s report</li> </ul> | Audit results report – February 2023<br><br>No such circumstances identified |

Page 47

# Draft Management Representation Letter

## Management Rep Letter

*[To be prepared on the entity's letterhead]*

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

Page 48

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 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Arun District Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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

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

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code

- of Practice on Local Authority Accounting in the United Kingdom 2021/22.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and of the conflict and related sanctions in Ukraine, Russia and/or Belarus 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 [specify reasons for not correcting misstatement]**

### 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.

# Management representation letter

## Management Rep Letter

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, 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, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.
  3. We have made available to you all minutes of the meetings of the Full Council and Audit and 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: 18 January 2023.
  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 2021/22.
  6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

# Management representation letter

## Management Rep Letter

7. From the date of our last management representation letter (22 February 2022) 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, and ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

### 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, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, 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. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, aligned with the statements we have made in the other information or other public communications made by us.

### I. Comparative information – corresponding financial information

1. CIES and EFA - Following an updated portfolio structure in 2021/22, the cost of services lines in the CIES and EFA have been adjusted accordingly.
2. The comparative amounts for these items have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's financial statements.

# Management representation letter

## Management Rep Letter

### J. Reserves

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

### K. 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 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.

### L. 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 2021/22.
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.

### M. 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)

---

(Chair of the Audit & Governance Committee)

About EY

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

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

© 2017 EYGM Limited.  
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

## Arun District Council

|   |   |
|---|---|
| <b>REPORT TO:</b>   | <b>Audit &amp; Governance Committee – 28 February 2023</b>                    |
| <b>SUBJECT:</b>   | <b>Statement of Accounts 2021/22</b>  |
| <b>LEAD OFFICER:</b>  | <b>Carolyn Martlew, Interim Group Head of Finance and Section 151 Officer</b> |
| <b>LEAD MEMBER:</b>   | Councillor Mike Clayden   |
| <b>WARDS:</b>   | <b>All</b>  |
| <b>CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:</b>  |   |
| The Council’s statutory obligation to publish a set of Audited Statement of Accounts.   |   |
| <b>DIRECTORATE POLICY CONTEXT:</b>  |   |
| The audited accounts, together with the auditor’s opinion are required to be published by the Council.  |   |
| <b>FINANCIAL SUMMARY:</b>   |   |
| This report provides information about the audit of the Council’s 2021/22 Statement of Accounts (accounts) and recommends the approval of the 2021/22 accounts and the Letter of Representation on behalf of the Council. |   |

### 1. PURPOSE OF REPORT

- 1.1. The Statement of Accounts for the financial year ended 31 March 2022 has been prepared in compliance with the required standards and statutes which needs to be approved by this Committee.

### 2. RECOMMENDATIONS

The Committee is requested to:

- i. Note the findings of the EY Audit Results Report (previous item on the agenda);
- ii. Approve the Management representation letter on behalf of the Council in appendix 1; and
- iii. Approve the Statement of Accounts for the financial year ended 31 March 2022 contained in appendix 2.

### 3. EXECUTIVE SUMMARY

- 3.1. The purpose of this report is for this Committee to consider and approve the Financial Statement of Accounts for 2021/22.

## **4. DETAIL**

4.1. The Statement of Accounts summarises the Council's financial transactions for 2021/22 and its financial position at 31 March 2022. 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

4.1. 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.

4.2. The Supplementary Financial Statements are comprised of the:

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

4.3. 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.

- PPE Valuation (Bognor Regis Arcade) judgemental misstatement (overstatement) of £151k
- PPE Valuation (Laburnum Centre, Bognor Regis) judgemental misstatement (overstatement) of £101k
- Net Pension asset (overstatement) of £270k
- Debtor – Non-Domestic Ratepayers (understatement) £134k
- Provision for doubtful debts (overstatement) £182k

## **5. CONSULTATION**

5.1. Not applicable.

## **6. OPTIONS / ALTERNATIVES CONSIDERED**

6.1. Not applicable.

## **7. COMMENTS BY THE INTERIM GROUP HEAD OF FINANCE/SECTION 151 OFFICER**

7.1. The Statement of Accounts for the financial year ended 31 March 2022 has been prepared in compliance with the required standards and statutes which needs to be approved by this Committee.



## **8. RISK ASSESSMENT CONSIDERATIONS**

- 8.1. Publication of the Financial Statement of Accounts is a statutory requirement. Failure to meet the targets could result in reputational damage.
- 8.2. If the External Audit is qualified, it will result in reputational damage and could result in penalties by central government.

## **9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER**

- 9.1. The Statement of Accounts set out the Council's financial position at the year-end in a format that is prescribed by Regulations and the Local Government Accounting Code of Practices.

## **10. HUMAN RESOURCES IMPACT**

- 10.1. There are no direct implications.

## **11. HEALTH & SAFETY IMPACT**

- 11.1. There are no direct implications.

## **12. PROPERTY & ESTATES IMPACT**

- 12.1. There are no direct implications.

## **13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE**

- 13.1. There are no direct implications.

## **14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE**

- 14.1. There are no direct implications.

## **15. CRIME AND DISORDER REDUCTION IMPACT**

- 15.1. There are no direct implications.

## **16. HUMAN RIGHTS IMPACT**

- 16.1. There are no direct implications.

## **17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS**

- 17.1. There are no direct implications.

---

**CONTACT OFFICER:**

Name: Carolin Martlew

Job Title: Interim Group Head of Finance and Section 151 Officer

Contact Number: 01903 737568

**BACKGROUND DOCUMENTS:**

[2022/23 Budget Report to Full Council 23 February 2022;](#)

[Financial Prospects 2022/23 to 2026/27 – Finance and Policy Committee 13 December 2022;](#)

[Budget Consultation Report – Corporate Support Committee 15 September 2022;](#)

Statement of Accounts 2021/22.



This page is intentionally left blank



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

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

Tel: 01903 737500  
DX: 57406 LITTLEHAMPTON

e-mail: [carolin.martlew@arun.gov.uk](mailto:carolin.martlew@arun.gov.uk)  
[www.arun.gov.uk](http://www.arun.gov.uk)

28 February 2023

Please ask for:  
Carolyn Martlew  
Organisational Excellence Support  
Direct Line: 01903 737568

Dear Mr Suter

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 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Arun District Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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

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

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

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance

with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and of the conflict and related sanctions in Ukraine, Russia and/or Belarus 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 the differences identified by and brought to the attention from the auditor in Appendix A because the amounts are not material, individually and collectively (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, 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, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.
3. We have made available to you all minutes of the meetings of the Full Council and Audit and 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: 18 January 2023.
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 2021/22.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter (22 February 2022) 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, and ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

#### **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. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
2. 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, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, 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. Climate-related matters**

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate related matters has been considered and reflected in the financial statements.



2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, aligned with the statements we have made in the other information or other public communications made by us.

#### **I. Comparative information – corresponding financial information**

1. CIES and EFA - Following an updated portfolio structure in 2021/22, the cost of services lines in the CIES and EFA have been adjusted accordingly.
2. The comparative amounts for these items have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's financial statements.

#### **J. Reserves**

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

#### **K. 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 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.

#### **L. 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 2021/22.

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.

**M. 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)

(Chair of the Audit & Governance Committee)

## Appendix A

### 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

We highlight the following misstatements greater than £1.58m which have been corrected by management that were identified during the course of our audit. There are no such items to report.

We report to you any uncorrected misstatements greater than our nominal value of £105k.

There are five misstatements to bring to your attention at the time of writing this report, based on the preliminary findings of our local audit team and the Pension Fund auditors.

- PPE Valuation (Bognor Regis Arcade) judgemental misstatement (overstatement) of £151k
- PPE Valuation (Laburnum Centre, Bognor Regis) judgemental misstatement (overstatement) of £101k
- Net Pension asset (overstatement) of £270k
- Debtor - Non-Domestic Ratepayers (understatement) £134k
- Provision for doubtful debts (overstatement) £182k

A number of immaterial adjustments in the disclosure notes and associated narrative were also requested.

This page is intentionally left blank



# **Arun District Council**

## **Annual Statement of Accounts for the year 2021/22**

Arun District Council  
Interim Group Head of Finance and S.151 Officer  
Arun Civic Centre  
Maltravers Road  
Littlehampton  
West Sussex  
BN17 5LF  
01903 737568

## Contents

|   |    |
|---|----|
| Narrative Report .....  | 1  |
| Statement of Responsibilities .....   | 19 |
| Expenditure and Funding Analysis .....  | 20 |
| Comprehensive Income and Expenditure Statement .....  | 21 |
| Movement in Reserves Statement .....  | 22 |
| Balance Sheet .....   | 24 |
| Cash Flow Statement .....   | 26 |
| Note 1 - Accounting Policies .....  | 27 |
| Note 2 - Accounting Standards Issued, Not Adopted .....   | 45 |
| Note 3 - Critical Judgements in Applying Accounting Policies .....                                    | 45 |
| Note 4 - Assumptions Made about the Future and Other Major Sources of<br>Estimation Uncertainty ..... | 47 |
| Note 5 - Material Items of Income and Expense .....   | 49 |
| Note 6 - Events After the Balance Sheet Date .....  | 49 |
| Note 7 - Note to the Expenditure and Funding Analysis .....   | 49 |
| Note 9 - Adjustments between Accounting Basis and Funding Basis under<br>Regulations .....            | 52 |
| Note 10 - Transfers to/from Earmarked Reserves .....  | 54 |
| Note 11 - Other Operating Expenditure .....   | 55 |
| Note 12 - Financing and Investment Income and Expenditure .....                                       | 55 |
| Note 13 - Taxation and Non-Specific Grant Income .....  | 55 |
| Note 14 - Property, Plant and Equipment .....   | 56 |
| Note 15 - Investment Properties .....   | 60 |
| Note 16 - Intangible Assets .....   | 62 |
| Note 17 - Financial Instruments .....   | 63 |
| Note 18 - Debtors .....   | 69 |
| Note 19 - Cash and Cash Equivalents .....   | 69 |
| Note 20 - Assets Held for Sale .....  | 69 |
| Note 21 - Creditors .....   | 69 |
| Note 21A - Long Term Creditors .....  | 70 |
| Note 22 - Provisions .....  | 70 |
| Note 23 - Usable Reserves .....   | 70 |
| Note 24 - Unusable Reserves .....   | 71 |
| Note 25 - Cash Flow from Operating Activities .....   | 74 |
| Note 26 - Cash Flow from Investing Activities .....   | 75 |
| Note 27 - Cash Flow from Financing Activities .....   | 75 |
| Note 28 - Agency Services .....   | 76 |
| Note 29 - Members' Allowances .....   | 76 |
| Note 30 - Officers' Remuneration .....  | 77 |
| Note 31 - External Audit Costs .....  | 79 |
| Note 32 - Grant Income .....  | 79 |
| Note 33 - Related Parties .....   | 81 |
| Note 34 - Capital Expenditure and Capital Financing .....   | 82 |
| Note 35 - Leases .....  | 83 |
| Note 36 - Impairment Losses .....   | 85 |
| Note 37 - Termination Benefits .....  | 85 |
| Note 38 - Defined Benefit Pension Scheme .....  | 85 |
| Note 39 - Contingent Liabilities .....  | 91 |
| Note 40 - Going Concern .....   | 92 |

|  |     |
|--|-----|
| Housing Revenue Account Income and Expenditure Statement ..... | 95  |
| Movement on the HRA Statement .....                            | 96  |
| HRA Property, Plant and Equipment .....                        | 97  |
| HRA Intangible Assets .....                                    | 99  |
| HRA Assets Held for Sale .....                                 | 99  |
| Notes to the HRA Account.....                                  | 99  |
| Housing Revenue Account Capital Expenditure .....              | 100 |
| Rent Arrears .....   | 100 |
| Collection Fund.....   | 101 |
| Glossary .....   | 103 |

## Narrative Report

### Introduction to the Arun district

Arun District is the largest district in West Sussex in terms of population (164,800 census 2021) and the third largest in terms of Council Tax Base (62,628 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. The next elections will be in May 2023.

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 wage increases have recently outstripped inflation, they are still not back to their pre-2008 levels in real terms. It was hoped 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. Recent inflationary pressures could reasonably be expected to exacerbate this issue in future.

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:

| <b>Measure</b>                            | <b>Rank</b> |
|---|-------------|
| 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 Committees

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, significant changes were made to the Council's Constitution. The main feature of the change was to remove the 'Leader and Cabinet' form of governance that the Council operated since 2001 and replace it with a 'Committee System' form of governance. The new form of governance results 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 has decision making powers.

#### Service Committees

There are six Service Committees:

| Service Committee                             | Service Areas   |
|---|---|
| Policy and Finance Committee<br>9 Members     | Corporate Policy;<br>Corporate Performance;<br>Partnership and Liaison (excluding where this falls within another Service Committee's functions);<br>Public Engagement  |
| Corporate Support Committee<br>11 Members     | Finance;<br>Legal Services;<br>Human Resources;<br>Communications;<br>Design, print and postal services;<br>ICT and Digital Agenda;<br>Information Management;<br>Customer Services;<br>Committee Services;<br>Elections and electoral reviews. |
| Planning Policy Committee<br>11 Members       | Planning Policy;<br>Infrastructure.   |
| Housing and Wellbeing Committee<br>11 Members | Housing Strategy and Enabling;<br>Housing Revenue Account (HRA);<br>Homelessness;<br>Revenues and Benefits;<br>Leisure and Culture;<br>Community Safety;<br>Wellbeing;<br>Safeguarding;<br>Lifeline.  |
| Environment Committee<br>11 Members           | Green Spaces;<br>Cemeteries;<br>Waste and Recycling;  |

|                                 |  |
|---------------------------------|--|
|                                 | Car Parks;<br>Engineering;<br>Environmental Health;<br>Building Control;<br>Emergency Planning;<br>Foreshores;<br>Biodiversity.  |
| Economy Committee<br>11 Members | Economic Policy and Research;<br>Economic Partnerships;<br>Commercial Investment;<br>Commercial Activities;<br>Town Centre revival;<br>Business Development;<br>Tourism;<br>Property and Estates;<br>Land Charges. |

### Regulatory Committees

| Regulatory Committee  | Functions  |
|---|--|
| Audit and Governance Committee<br>11 Members                            | Corporate Complaints;<br>Internal Audit;<br>External Audit;<br>Members Allowances;<br>External scrutiny of partners. |
| Planning Committee<br>11 Members  | Planning applications;<br>Service performance.   |
| Licensing Committee<br>11 Members                                       | Licensing Act 2003;<br>Gambling Act 2005;<br>Scrap Metal Dealers' Act 2013;  |
| Standards Committee<br>11 Members plus minimum of 3 Independent Persons | Members' Code of Conduct;<br>Code of Conduct complaint reviews.  |

In addition, there is a number of sub-committees, working parties and panels reporting to the Service Committees and Council.

### 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 was the first peacetime national emergency that the Council has had to face since its inception. The effects of the outbreak of the Corona virus continued in to 2021/22 and the financial year was one of gradually returning to business as usual wherever possible.

The Council's leisure facilities and customer contact centres re-opened as restrictions allowed and were fully operational during the year. Social distancing and other measures were followed and this led to usage and capacity not returning to pre-pandemic levels during the year. The Council was able to recover most of its lost income from central government funding.

Officers remained involved in carrying out compliance and enforcement activities to protect the public as restrictions were relaxed. As in 2020/21, debt recovery procedures were relaxed to allow customers reasonable chance to pay outstanding debts before recovery was commenced. Procedures are now being enforced.

Some government financial support schemes are still active and others are being introduced and officers continue to administer these and make payments to claimants. Council Tax and Business Rates relief schemes remained in place and were administered by Council staff.

The table below shows the main sources of financial support from central government to support local business, individuals and the Council's own cost pressures and income losses arising from the pandemic.

|  |                                 | Amount available to spend in 2021/22 £'000 | Amount paid at 31 March 2022 £'000 | Amount repayable to/(receivable from) government £'000 |
|--|---------------------------------|--|------------------------------------|--|
| Business support grant funding from Department for Business, Energy and Industrial Strategy (BEIS) | Omicron Hospitality and Leisure | 1,608                                      | 946                                | 662  |
|  | Restart Grant                   | 8,448                                      | 5,851                              | 2,597  |
|  | Additional Restrictions         | 3,654                                      | 3,501                              | 152  |
|  | Schemes from 2020/21            | 9,610                                      | 699                                | 8,911  |
| Test and trace support payment scheme funding from the Department of Health and Social Care        |                                 | 357  | 454                                | (102)  |
| Compensation for the Council's losses for Sales, Fees and Charges                                  |                                 | 159  | 159                                | 0  |
| Covid-19 Additional Relief Fund (CARF)   |                                 | 1,954                                      | 0                                  | 1,954  |

In line with government guidance, staff continued to work from home for most of 2021/22, 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.

## Workforce

The Council employs approximately 369 staff in full-time and part-time positions at 31 March 2022.

## **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 continues to face 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

2021/22 is the final year of the current Plan. During 2021/22, the Council's Chief Executive left the Council and a replacement was appointed. A new Plan and Council vision indicators were agreed by Full Council on 9 March 2022 and this was implemented and monitored from 1 April 2022. Any references in this document will be with reference to the previous plan and indicators.

## **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.

Policy and Finance Committee was updated on performance twice a year. The full outturn report of the Council's performance was considered at Policy and Finance Committee on 30 June 2022.

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 97.6% (97.1% previous year) compared to the target of 98%. The performance of 0.4% below target was due to post pandemic economic conditions. Although the target was not met, compared to other areas the modest increase in collection rate is considered satisfactory.
- Housing Benefit/ Council Tax Support – the time taken to process new claims was 3.3 days (2.6 days previous year) compared to a target of 8 days.

- Household waste sent for reuse, recycling and composting was 42.03% (41.93% 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 remains difficult to assess as there are a number of variables which will affect the Council and we remain in an unprecedented period of low interest rates. These factors have been exacerbated by the Coronavirus pandemic and other world events during 2021/22.

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. There was still no certainty on these matters at 31 March 2022. Government had again issued local Councils with a one year financial settlement for 2022/23 with the intention of announcing the reviews later.

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. The decision was taken to set the General Fund Balance at £5.0m at 31 March 2022 during the 2022/23 budget setting. The Funding Resilience Reserve increased by £2.414 million to £9.073m at 31 March 2022 of which £2.076m was a transfer from General Fund Reserves with the balance of £0.338m being an underspend.

The UK completed its withdrawal from the European Union on 31 December 2020. The effects of this continued to affect the Council during 2021/22. This continued to be overshadowed by the global COVID19 pandemic and the future financial impacts remain largely uncertain. The Government Spending Review (SR19) mentioned above was further delayed due to the pandemic.

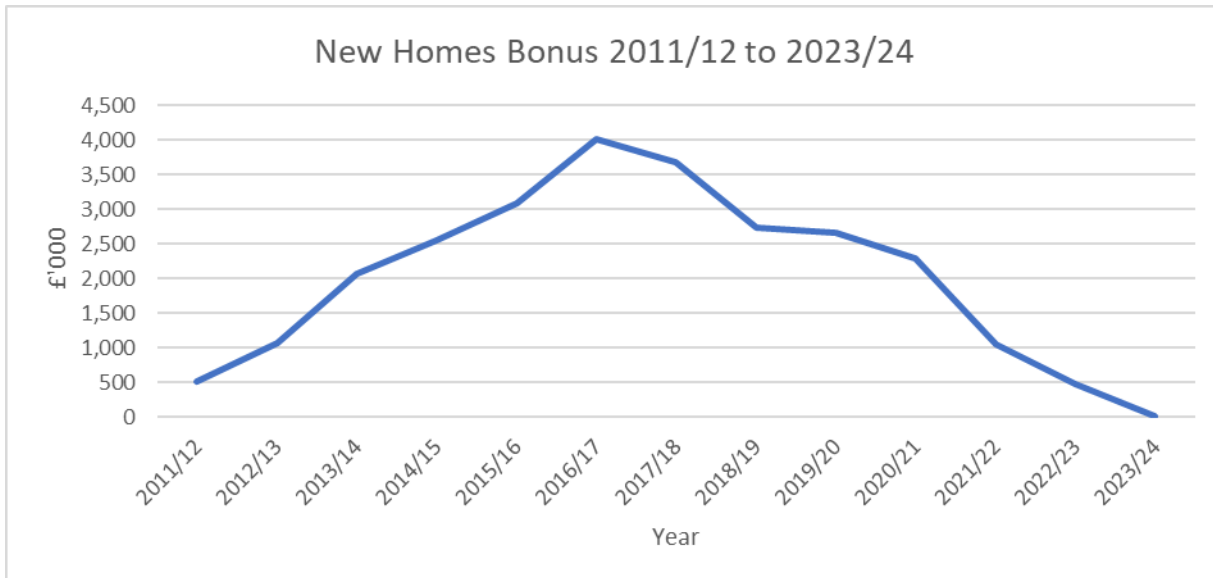
The Council's General Fund expenditure is supported by Government through the Business Rate Retention scheme, non-ringfenced grants and the New Homes Bonus (NHB). There has been a continual sharp decline in the level of general Central Government support and the Council is no longer in receipt of Revenue 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 2021/22. Future funding allocations are expected to be determined by the Fair Funding Review when implemented. For the immediate future, it is expected one year settlements will continue to be issued.

The Council received £1.040m in New Homes Bonus in 2021/22 (£2.295m previous year) and this was expected to further decrease to £0.470m for 2022/23. 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<br>£'000 | 2012/13<br>£'000 | 2013/14<br>£'000 | 2014/15<br>£'000 | 2015/16<br>£'000 | 2016/17<br>£'000 | 2017/18<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000 | 2020/21<br>£'000 | 2021/22<br>£'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               |
| <b>Total</b>             | <b>509</b>       | <b>1,065</b>     | <b>2,065</b>     | <b>2,549</b>     | <b>3,088</b>     | <b>4,014</b>     | <b>3,677</b>     | <b>2,733</b>     | <b>2,664</b>     | <b>2,295</b>     | <b>1,040</b>     |

The Council expects to only receive the legacy payment from earlier years from 2022/23 and it is anticipated that the Council will not be in receipt of NHB by 2023/24. The Council has had significant income from the New Homes Bonus which is summarised in the table above and graph below:



## Council Tax Income

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

| Actual<br>2019/20 | Arun excluding Parish Councils          | Actual<br>2020/21 | Budget<br>2021/22 |
|-------------------|---|-------------------|-------------------|
| 61,281            | Tax base                                | 62,244            | 62,628            |
| £181.62           | Band D Tax                              | £186.57           | 191.52            |
| £11,130,000       | Council Tax Income (excluding parishes) | £11,613,000       | £11,995,000       |

The Council Tax for 2021/22 is based on an Arun Band D of £191.52, which represents an increase of £4.95 or 2.65% (£186.57 for 2020/21). This has continued to redress the reduction, in real terms, of the Council Tax Income Base which was frozen for 5 years. Arun's tax base increased in 2020/21 from 61,281 to 62,244 (963), with a further increase of 384 for 2021/22 to 62,628. The increase is mainly due to the completion of new dwellings in the District. The slowdown in increase is due to a backlog of properties being valued by the Valuation Office Agency.

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 2% 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 in excess of £6m (£5m previous year). The increase is welcome as the Country continues its recovery from the pandemic.

As referred to above the low interest environment has persisted. However, proactive investment of cash balances has generated £0.460m in interest in 2021/22 (£0.627m previous year).

The Council had a General Fund revenue balance of £7.076m (£7.076m previous year) at 1 April 2021, which is adequate to withstand immediate financial pressures but is inevitably a finite resource and will be monitored carefully. The Council approved in February 2022 to set its General Fund revenue balance at £5m and transfer £2.076m to the Funding Resilience Reserve. There are several major risks and uncertainties associated with the recovery from 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, the Funding Resilience Reserve has been set aside to offset future volatility of funding.

### Business Rate Retention Scheme

Unlike previous years, there was no Business Rates retention Scheme Pilot for 2021/22. A bid was made and approved by government for a revised pool arrangement consisting of Adur District Council, Arun District Council, Horsham District Council, Mid Sussex District Council and West Sussex County Council with effect from 1 April 2022.

### Net Assets

The Council maintains a strong balance sheet despite financial challenges, net assets were £326.093m at 31 March 2022 (£307.193m at 31 March 2021).

|   |   |   |
|---|---|---|
| Non-Current Assets (Property & Investments) £343.995m             | ➔ | Net Assets<br>31 March<br>2022<br>£326.093m |
| Net Current Assets (Debtors, Creditors & Cash) £31.082m           | ➔ |   |
| Long Term Liabilities (Pensions, Borrowing & Provisions) £48.983m | ➔ |   |
| Funded by: Usable Reserves £43.587m                               | ➔ |   |
| Funded by: Unusable Reserves £283.372m                            | ➔ |   |

|   |   |   |
|---|---|---|
| Non-Current Assets (Property & Investments) £325.725m             | ➔ | Net Assets<br>31 March<br>2021<br>£307.193m |
| Net Current Assets (Debtors, Creditors & Cash) £30.392m           | ➔ |   |
| Long Term Liabilities (Pensions, Borrowing & Provisions) £48.924m | ➔ |   |
| Funded by: Usable Reserves £47.222m                               | ➔ |   |
| Funded by: Unusable Reserves £259.971m                            | ➔ |   |

### Financial Management

The 2021/22 budget was considered by the Overview Select Committee on 26 January 2021 and cabinet on 8 February 2021 before being formally approved by Full Council on 17 February 2021. 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 2020 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 2021/22 for the GF and HRA (please see page 18 for further details on HRA).

| <b>Reconciliation of the outturn position to the Financial Statements 2021-22</b> |                 |                  |                |                 |
|---|-----------------|------------------|----------------|-----------------|
|   | <b>GF</b>       | <b>Earmarked</b> | <b>HRA</b>     | <b>Combined</b> |
|   | <b>£'000</b>    | <b>£'000</b>     | <b>£'000</b>   | <b>£'000</b>    |
| <b>Cost of Service as per Comprehensive Income &amp; Expenditure Statement</b>    | <b>24,907</b>   | <b>-</b>         | <b>(9,847)</b> | <b>15,060</b>   |
| <b>Adjustments between accounting basis &amp; funding under regulations</b>       |                 |                  |                |                 |
| Adjustment for Capital Purposes   | (1,064)         | -                | 10,969         | 9,905           |
| Net Change for Pensions Adjustments   | (2,905)         | -                | (264)          | (3,169)         |
| Other Changes   | 221             | -                | 15             | 236             |
| <b>Total Adjustments (See Note 7)</b>   | <b>(3,747)</b>  | <b>-</b>         | <b>10,720</b>  | <b>6,973</b>    |
| <b>Net Cost of Services in the Expenditure and Funding Analysis</b>               | <b>21,159</b>   | <b>-</b>         | <b>874</b>     | <b>22,033</b>   |
| <b>Other Income and Expenditure (see Expenditure and Funding Analysis)</b>        | <b>(19,531)</b> | <b>-</b>         | <b>(874)</b>   | <b>(15,730)</b> |
| Transfer to / (from) Earmarked Reserve<br>(See Note 10 - Net Transfers)           | (1,629)         | 1,629            | -              | 0               |
| <b>(Surplus) / Deficit for the year</b>   | <b>-</b>        | <b>1,629</b>     | <b>-</b>       | <b>6,303</b>    |

The original budget for 2021/22 anticipated a break even (no change) in the level of General Fund Reserve. The Council's governance arrangements required some additional expenditure (that was not included in the original budget) to be approved by Full Council. During the year six additional supplementary estimates totalling £278k were approved:

| <b>Reconciliation of Supplementary Approvals</b>          |                  |              |
|---|------------------|--------------|
|   | <b>Estimates</b> | <b>Total</b> |
|   | <b>£'000</b>     | <b>£'000</b> |
| Fitzalan Road acoustic fencing FC 14/07/2021              | 25               |              |
| Planning Appeal P/58/19/PL                                | 26               |              |
| Planning Appeal BN/142/20/OUT                             | 50               |              |
| West Bank Strategic Allocation FC 15/09/2021              | 50               |              |
| Recruitment of permanent CEO FC 13/10/2021 380 (3)        | 30               |              |
| Recruitment of an interim CEO FC 13/10/2021 384 (3)       | <u>97</u>        |              |
| <b>Total Supplementary Approvals to end of March 2022</b> |                  | <b>278</b>   |

These changes combined with an underspend for the year resulted in a total approved budgeted contribution to reserves of £2.949m. The setting of the General Fund revenue balance to £5m resulted in a further transfer to reserves of £2.076m. Regular strategic monitoring that was carried out during the year indicated an estimated General Fund outturn aligned to this. 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 17 February 2021 included the following statement:

*Members are asked to note that as Group 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 2021/22 are adequate. However, there is significant risk in the medium-term for the General Fund when the Council's Funding Resilience reserve is anticipated 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 2021/22 of a decrease in the General Fund Reserve of £2.076m is not in line with the original budget. However, the withdrawal and transfer to the Financial Resilience Reserve was approved as part of the 2022/23 budget setting in February 2022.

It is important to note that the outturn position is comprised of a significant number of smaller over and underspends and some more significant items (over £200k) which are analysed below. A detailed analysis will be reported to Policy and Finance Committee on 6 September 2022:

Variation Analysis original budget to outturn 2021/22

|   |                       |
|---|-----------------------|
|   | <b>£'000</b>          |
| <b>Expected Use of Reserves 2021/22</b> | <b>0</b>              |
| <b>Favourable Variations</b>            |                       |
| Fees and Charges Income                 | (845)                 |
| Recharge to Housing Revenue Account     | (284)                 |
| Contingency                             | (248)                 |
| Commuted Sums Felpham Site 6            | (263)                 |
| Non Ringfenced Government Grants        | (200)                 |
| Other Variances Net                     | (135)                 |
| <b>Total Favourable Variations</b>      | <b><u>(1,975)</u></b> |

### **Adverse Variations**

|   |              |
|---|--------------|
| Supplementary Budgets approved by Full Council                    | 278          |
| Littlehampton Public Realm  | 400          |
| Homelessness net  | 454          |
| Inflation Contingency   | 500          |
| Additional Underspend transferred to Financial Resilience Reserve | 343          |
| Transfer of General Fund Balance to Financial Resilience Reserve  | 2,076        |
| <b>Total Adverse Variations</b>                                   | <b>4,051</b> |

### **Change in General Fund Balance 2021/22**

**2,076**

Fees and charges income exceeded budget, mainly due to Planning Services income. This exceeded budget expectation mainly due to ten residential and three commercial planning applications of significant value during the year. In addition, an application was received for a strategic site in the district which was not anticipated.

An estimate is made at the commencement of each financial year of recharge to Housing Revenue from General Fund for services provided. The out turn was £1.710m compared to an original estimate of £1.426m; a variation of 20%.

The central contingency was largely transferred to services as the year progressed and items were committed. The variation here is items in the contingency budget that were not required.

Income from commuted sites cannot be anticipated and included in the budget.

The COVID19 pandemic remained an issue during 2021/22. A number of unexpected government grants were received during the year.

The £135k remaining favourable variation is the sum of other favourable and adverse variations in the year which were less than £200k.

Supplementary budgets approved during 2021/22 are listed above, totalling £278k in the year.

Littlehampton Public Realm Scheme was not included in the original revenue budget. The variance is a projected overspend on the project due to unforeseen circumstances.

During the COVID19 pandemic, the government implemented a number of policies to aid people in housing need, including a ban on private sector evictions. This was removed in June 2021 and a number of further issues have increased homelessness and housing problems across the whole country. This has resulted in an increase in demand for the service locally, increasing expenditure.

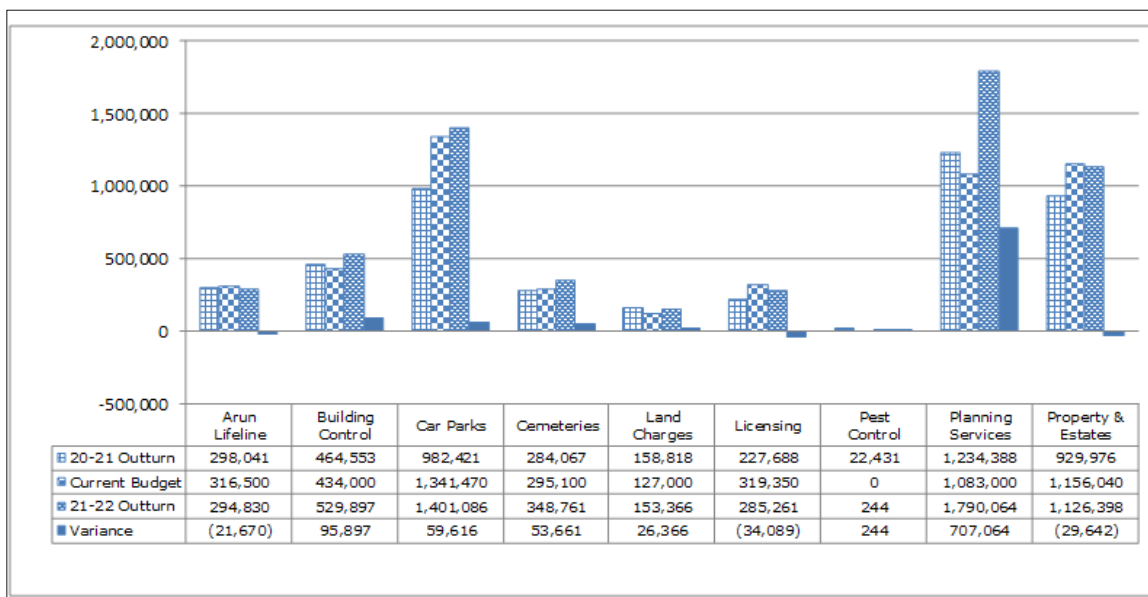
An Inflation contingency reserve was set up at 31 March 2022 to offset anticipated cost increases in 2022/23 which were not evident when budgets were set.

The £343k transfer to the Financial Resilience Reserve is in line with the Council's policy of using this reserve for under and overspends at year end. The accumulated balance will assist the Council in dealing with expected decreases in income and increases in expenditure in future years.

The change in General fund balance is the transfer of £2.076m balances above £5m to the Financial Resilience Reserve approved by the Council in February 2022.

## Income Variation Outturn 2021/22

With the exception of Planning Services, the Council's income from fees and charges was in line with the original budget in 2021/22.



## The Covid-19 pandemic

At the beginning of 2021/22, the country was just starting to re-open after a further lockdown due to the Delta variant of Covid-19. Further Central Government grants had been provided to cover this period of uncertainty.

A balanced budget for 2021/22 was set in February 2021. Although the general fund reserve has been reduced to £5m, which was due to a transfer of £2.076m to Earmarked Reserves rather than any adverse variance outcome arising from the pandemic.

The impact of Covid-19 during 2021-2022 was not as significant as 2020-2021. The Government continued to aid local authorities with a range of support in the form of grants and relief mentioned below:

| <b>C-19 grants</b>                  | <b>£'000</b>  |
|-------------------------------------|---------------|
| Re-opening of High Streets          | 32            |
| Additional Restrictions Grant       | 1,214         |
| Restart Grant                       | 8,448         |
| Welcome Back Fund                   | 40            |
| Omicron Hospitality/Leisure Grant   | 1,608         |
| Covid New Burdens Support Grant     | 405           |
| Covid Support Grant                 | 831           |
| Contain Outbreak Management Fund    | 1,058         |
| Covid Additional Relief Fund        | 1,955         |
| Self-Isolation                      | 211           |
| Sales, Fees and Charges             | 173           |
| Section 31 Covid Grants (ADC Share) | 4,296         |
| <b>Total</b>                        | <b>20,272</b> |

The economy recovered strongly during the summer months of 2021 with many people spending their holidays within the UK.

As the year progressed, it became apparent that to prevent the spread of a new Covid-19 variant (omicron), additional Covid-19 vaccination boosters would be required. In addition, Central Government grants were provided to assist businesses during the winter period.

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 £8m for capital and special revenue projects was approved by the Council for 2021/22. In addition, £25m was carried forward from 2020/21 to complete approved projects. Actual expenditure for 2021/22 amounted to £11.3m (£9.4m in 2020/21) on capital schemes and £2.2m (£1.3m in 2020/21) 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.

New play facilities were delivered in 2021/22 at a total capital cost of £154k, Canada Road Skate Park Arundel (£7.5k contribution from Arundel Town Council), Avisford Park Multi use games area Aldwick (£8k contribution from Aldwick Parish Council), Goldcrest Avenue Littlehampton, Rose Green Aldwick & Hunters Mews Fontwell.



Pictured top left is Canada Road Skate Park and top right Avisford Multi Use Games Area.

In 2020/21 Arun was awarded £1.2m by the Getting Building Fund towards public realm enhancements at Place St Maur & Esplanade Bognor Regis. Together with £607k funding from Arun this project would see the delivery of resurfacing, seating, water jets, lighting, improved soft landscaping and infrastructure for events.

The project commenced in 2021/22 and will be completed in 2022/23.



In 2019/20 the Council was awarded £2.49m by the Coastal Communities Fund and £564k by the Local Growth Fund to deliver Littlehampton town centre public realm improvements, with funding also from the Town Council, WSCC and Arun.

Due to increases in construction costs and therefore the need to reengineer the project and the impact of the Covid 19 pandemic this project had been delayed. However, construction commenced in 2021/22 and work is continuing to progress. All phases are due to be completed by 2023.

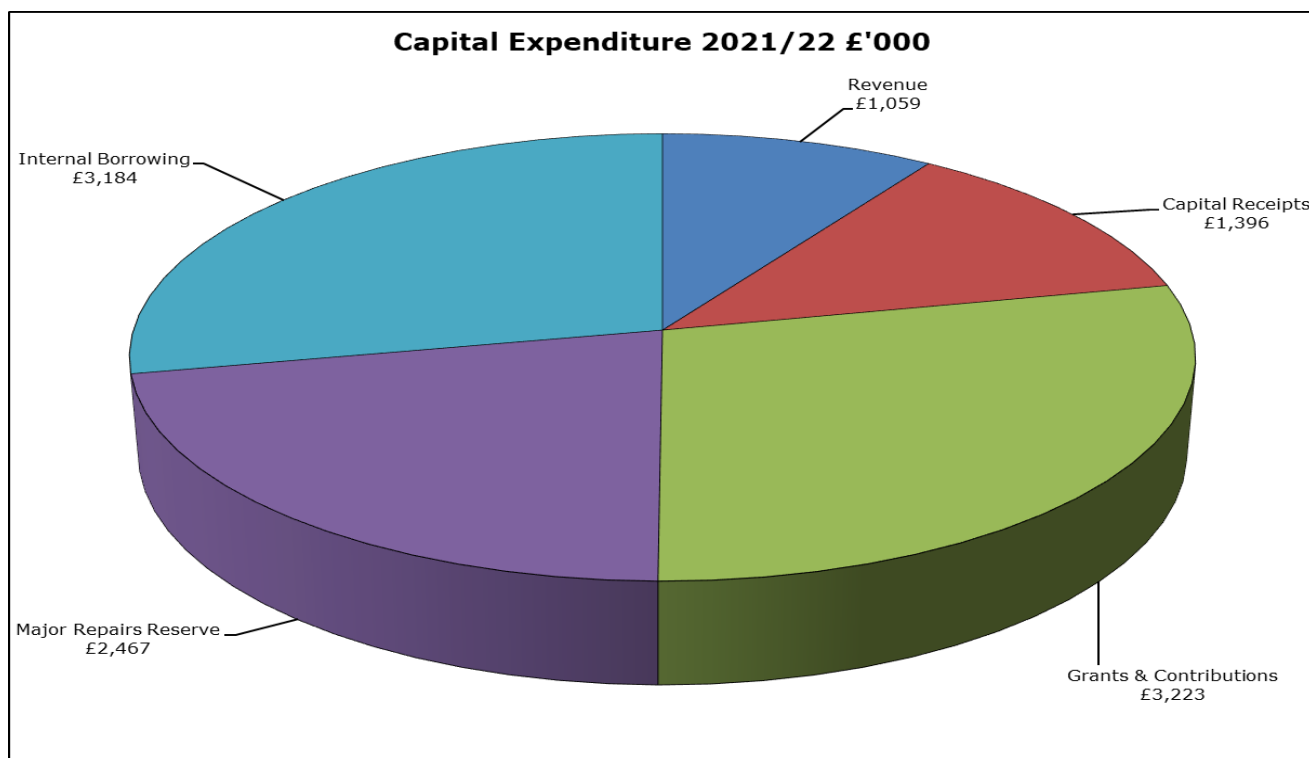




The Council’s housing stock development programme continued in 2021/22 delivering 10 new dwellings and saw the conversion of an existing dwelling to provide one additional unit, these were delivered at a total cost of £1.9m. A further £2.4m was also spent on schemes at Pagham and Bognor Regis still under development.



The total financing of Capital Expenditure for 2021/22 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 Housing and Wellbeing Committee on 2 December 2021 and approved by Full Council on 26 January

2022. 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 2021/22 the HRA, including the Major Repairs Reserve, showed a deficit of £2.058m compared with the budgeted deficit of £1.967m. The HRA reserve balance at 31 March 2022 was £3.891m. This balance is expected to continue to reduce over the first few years of the new Business Plan as a result of the programme of new dwellings and additional expenditure on the housing stock. The budget for 2022/23 is a £1.396m deficit.

The relationship between the HRA and the CIES and EFA is analysed on page 20. The deficit of £2.058m referred to above comprises £2.598m deficit on the HRA and £0.540m surplus on the Major Repairs Reserve.

### **Pensions Asset / Liability (2021-22)**

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 of 31 March 2022, there was an asset of £10.170m compared with £3.070m for the previous year. Under IFRIC14 the Council is only allowed to disclose a surplus to a maximum of the present value of future contributions (i.e., the 'current service cost' of £5,468m over all future years based on the average expected term to retirement of our active membership, approximately 10-15 years). This means the Council currently has a surplus of just under 2 years' service cost, which is within the allowed IAS 19 threshold. The reason for the increase in Pension Assets is due to changes in the remeasurement values.

The present funded liabilities comprise of approximately £77.189m, £35.177m and £79.957m in respect of employee members, deferred pensioners and pensioners respectively as of 31 March 2022.

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

### **Treasury Management**

The Council has significant cash surpluses, and these are mainly invested with the highest quality banks and building societies and £5m is invested in a local authority property fund 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 £68.95m (£69.09m including accrued interest), managed entirely internally. The total interest earned in 2021/22 was £0.461m, representing an average interest rate of 0.59% (2020/21 0.86%).

Rates remained low in 2021/22 due to the pandemic (C19) although balances remained high due to government grant support.



## **Balances and Reserves**

The Council's total usable reserves at 31 March 2022 amounted to £41.995m, a decrease of £5.227m compared with the previous year (£47.222m). They were comprised of: earmarked reserves £27.533m; Housing Revenue Account balance £3.891m; General Fund Revenue balance £5.000m; usable capital receipts £2.036m (some of which must be spent within agreed timeframes); Housing Major Repairs Reserve £2.886m; and Capital Grants Unapplied £0.649m.

## **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 £9.777m. 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 decreased by £3.705m and HRA balances (including Major Repairs Reserve), decreased by £2.058m.

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 2021 and March 2022 is largely made up of £9.9m increase in the valuation of Property, Plant and Equipment and a decrease of £8.9m in short term borrowing.

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 98 and 104. 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 Finance and Section 151 Officer, Arun Civic Centre, Maltravers Road, Littlehampton West Sussex, BN17 5LF.

The deadlines for the preparation of the Accounts were extended for 2021/22 due to the continuing impact of the Covid-19 pandemic and other issues. The draft Accounts must now be submitted for audit by 31 July 2022 and the timeline for conclusion of the Audit is 30 November 2022.

## 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 Finance 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 2022. 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.

Group Head of Finance and S.151 Officer

Dated 28 February 2023

#### **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 28 February 2023.

Councillor Mike Clayden, Chairman, Audit & Governance Committee

Dated 28 February 2023

## 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).

| 2020/21 Restated  |  |   |   | 2021/22   |  |   |
|---|--|---|---|---|--|---|
| Net Expenditure Chargeable to the General Fund & HRA Balances £'000 | Adjustments between Funding and Accounting Basis £'000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £'000 |   | Net Expenditure Chargeable to the General Fund & HRA Balances £'000 | Adjustments between Funding and Accounting Basis £'000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £'000 |
| 4,455   | 524  | 4,979   | Corporate Support Committee   | 5,132   | 804  | 5,936   |
| 891   | 389  | 1,279   | Economy Committee   | 1,518   | 433  | 1,951   |
| 7,305   | 986  | 8,291   | Environment Committee   | 7,810   | 1,209  | 9,019   |
| 5,508   | (1,474)  | 4,034   | Housing & Wellbeing Committee   | 4,795   | 746  | 5,541   |
| (1,091)   | (12,839)   | (13,931)  | Local authority housing (HRA)   | 874   | (10,720)   | (9,846)   |
| 546   | 154  | 700   | Planning Committee  | 23  | 262  | 285   |
| 1,588   | 196  | 1,784   | Policy & Finance Committee  | 1,881   | 289  | 2,170   |
| -   | 59   | 59  | Non distributed costs / (gains)   | -   | 5  | 5   |
| <b>19,201</b>   | <b>(12,005)</b>  | <b>7,196</b>  | <b>Net Cost of Services</b>   | <b>22,033</b>   | <b>(6,972)</b>   | <b>15,061</b>   |
| (31,844)  | 5,972  | (25,872)  | Total: Other income & Expenditure   | (15,730)  | (9,108)  | (24,838)  |
| <b>(12,643)</b>   | <b>(6,033)</b>   | <b>(18,676)</b>   | <b>Surplus or deficit</b>   | <b>6,303</b>  | <b>(16,080)</b>  | <b>(9,777)</b>  |
| <b>(30,084)</b>   |  |   | <b>Opening Combined General Fund and HRA Balance</b>  | <b>(42,727)</b>   |  |   |
| (12,643)  |  |   | Plus / less Surplus or Deficit on the General Fund and HRA Balance for the Year (Statutory basis) | 6,303   |  |   |
| <b>(42,727)</b>   |  |   | <b>Closing Combined General Fund and HRA Balance</b>  | <b>(36,424)</b>   |  |   |

The 2020-21 EFS has been restated due to a change from a Cabinet Structure to Committee Structure.

## 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.

| 2020/21 Restated     |                   |                  |   | 2021/22              |                   |                  |
|----------------------|-------------------|------------------|---|----------------------|-------------------|------------------|
| Expenditure<br>£'000 | Income<br>£'000   | Net<br>£'000     |   | Expenditure<br>£'000 | Income<br>£'000   | Net<br>£'000     |
| 5,274                | ( 294)            | 4,979            | Corporate Support Committee   | 6,251                | ( 315)            | 5,936            |
| 6,525                | ( 5,246)          | 1,279            | Economy Committee   | 7,425                | ( 5,474)          | 1,951            |
| 16,402               | ( 8,110)          | 8,291            | Environment Committee   | 17,679               | ( 8,660)          | 9,019            |
| 43,630               | ( 39,596)         | 4,034            | Housing & Wellbeing Committee   | 43,265               | ( 37,725)         | 5,540            |
| 2,946                | ( 16,876)         | ( 13,931)        | Local authority housing (HRA)   | 7,472                | ( 17,318)         | ( 9,846)         |
| 2,145                | ( 1,444)          | 700              | Planning Committee  | 2,328                | ( 2,042)          | 286              |
| 1,784                | -                 | 1,784            | Policy & Finance Committee  | 2,170                | -                 | 2,170            |
| 59                   | -                 | 59               | Non distributed costs / (gains)   | 5                    | -                 | 5                |
| <b>78,763</b>        | <b>( 71,567)</b>  | <b>7,196</b>     | <b>Cost of Services</b>   | <b>86,595</b>        | <b>( 71,534)</b>  | <b>15,061</b>    |
| 5,252                | ( 660)            | 4,593            | Other operating expenditure   | 5,582                | ( 948)            | 4,634            |
| 5,339                | ( 4,501)          | 838              | Financing and investment income and expenditure   | 5,611                | ( 4,793)          | 818              |
| -                    | ( 31,303)         | ( 31,303)        | Taxation and non-specific grant income  | -                    | ( 30,290)         | ( 30,290)        |
| <b>89,355</b>        | <b>( 108,031)</b> | <b>( 18,676)</b> | <b>(Surplus) or Deficit on Provision of Services</b>  | <b>97,788</b>        | <b>( 107,565)</b> | <b>( 9,777)</b>  |
|                      |                   | ( 113)           | (Surplus) or deficit on revaluation of Property, Plant & Equipment  |                      |                   | 772              |
|                      |                   | ( 3,419)         | (Surplus) or deficit on revaluation of available for sale financial assets and financial instruments at fair value through other comprehensive income and expenditure |                      |                   | ( 944)           |
|                      |                   | ( 3,405)         | Remeasurement of the net defined benefit liability/(asset)  |                      |                   | ( 8,951)         |
|                      |                   | <b>( 6,937)</b>  | <b>Other Comprehensive Income and Expenditure</b>   |                      |                   | <b>( 9,123)</b>  |
|                      |                   | <b>( 25,613)</b> | <b>Total Comprehensive Income and Expenditure</b>   |                      |                   | <b>( 18,900)</b> |

The 2020-21 EFS has been restated due to a change from a Cabinet Structure to Committee Structure.

## 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

|  | General Fund<br>Balance<br>£'000 | Total HRA<br>Balance<br>£'000 | Capital Receipts<br>Reserve<br>£'000 | Major Repairs<br>Reserve<br>£'000 | Capital Grants<br>Unapplied<br>Account<br>£'000 | Total Usable<br>Reserves<br>£'000 | Unusable<br>Reserves<br>£'000 | Total Authority<br>Reserves<br>£'000 |
|--|----------------------------------|-------------------------------|--------------------------------------|-----------------------------------|---|-----------------------------------|-------------------------------|--------------------------------------|
| <b>Balance at 31 March 2021</b>  | <b>(36,238)</b>                  | <b>(6,489)</b>                | <b>(1,933)</b>                       | <b>(2,346)</b>                    | <b>(217)</b>                                    | <b>(47,223)</b>                   | <b>(259,970)</b>              | <b>(307,193)</b>                     |
| <b>Movement in reserves during 2021-22</b>                             |                                  |                               |                                      |                                   |   |                                   |                               |                                      |
| (Surplus) or deficit on the provision of services                      | (556)                            | (9,221)                       |                                      |                                   |   | (9,777)                           |                               | (9,777)                              |
| Other Comprehensive Income and Expenditure                             |                                  |                               |                                      |                                   |   |                                   | (9,123)                       | (9,123)                              |
| <b>Total Comprehensive Income and Expenditure</b>                      | <b>(556)</b>                     | <b>(9,221)</b>                |                                      |                                   |   | <b>(9,777)</b>                    | <b>(9,123)</b>                | <b>(18,900)</b>                      |
| Adjustments between accounting basis & funding basis under regulations | 4,261                            | 11,819                        | (102)                                | (540)                             | (433)   | 15,005                            | (15,005)                      | 0                                    |
| <b>(Increase) or Decrease in 2021-22</b>                               | <b>3,705</b>                     | <b>2,598</b>                  | <b>(102)</b>                         | <b>(540)</b>                      | <b>(433)</b>                                    | <b>5,228</b>                      | <b>(24,128)</b>               | <b>(18,900)</b>                      |
| <b>Balance at 31 March 2022 carried forward</b>                        | <b>(32,533)</b>                  | <b>(3,891)</b>                | <b>(2,035)</b>                       | <b>(2,886)</b>                    | <b>(650)</b>                                    | <b>(41,995)</b>                   | <b>(284,098)</b>              | <b>(326,093)</b>                     |
| <b>General Fund Analysed over</b>                                      |                                  |                               |                                      |                                   |   |                                   |                               |                                      |
| Amounts uncommitted  | (5,000)                          |                               |                                      |                                   |   |                                   |                               |                                      |
| Amounts earmarked  | (27,533)                         |                               |                                      |                                   |   |                                   |                               |                                      |
| <b>Total Balance</b>   | <b>(32,533)</b>                  |                               |                                      |                                   |   |                                   |                               |                                      |



|  | General Fund<br>Balance<br>£'000 | Total HRA<br>Balance<br>£'000 | Capital Receipts<br>Reserve<br>£'000 | Major Repairs<br>Reserve<br>£'000 | Capital Grants<br>Unapplied<br>Account<br>£'000 | Total Usable<br>Reserves<br>£'000 | Unusable<br>Reserves<br>£'000 | Total Authority<br>Reserves<br>£'000 |
|--|----------------------------------|-------------------------------|--------------------------------------|-----------------------------------|---|-----------------------------------|-------------------------------|--------------------------------------|
| <b>Balance at 31 March 2020</b>  | <b>(22,844)</b>                  | <b>(7,240)</b>                | <b>(2,814)</b>                       | <b>(1,708)</b>                    | <b>0</b>  | <b>(34,606)</b>                   | <b>(250,443)</b>              | <b>(285,049)</b>                     |
| <b>Movement in reserves during 2019-20</b>                             |                                  |                               |                                      |                                   |   |                                   |                               |                                      |
| (Surplus) or deficit on the provision of services                      | (5,695)                          | (12,981)                      |                                      |                                   |   | (18,676)                          |                               | <b>(18,676)</b>                      |
| Other Comprehensive Income and Expenditure                             |                                  |                               |                                      |                                   |   |                                   | (3,468)                       | <b>(3,468)</b>                       |
| <b>Total Comprehensive Income and Expenditure</b>                      | <b>(5,695)</b>                   | <b>(12,981)</b>               |                                      |                                   |   | <b>(18,676)</b>                   | <b>(3,468)</b>                | <b>(22,144)</b>                      |
| Adjustments between accounting basis & funding basis under regulations | (7,699)                          | 13,732                        | 881                                  | (638)                             | (217)   | 6,060                             | (6,060)                       | <b>0</b>                             |
| <b>(Increase) or Decrease in 2020-21</b>                               | <b>(13,394)</b>                  | <b>751</b>                    | <b>881</b>                           | <b>(638)</b>                      | <b>(217)</b>                                    | <b>(12,616)</b>                   | <b>(9,528)</b>                | <b>(22,144)</b>                      |
| <b>Balance at 31 March 2021 Carried forward</b>                        | <b>(36,238)</b>                  | <b>(6,489)</b>                | <b>(1,933)</b>                       | <b>(2,346)</b>                    | <b>(217)</b>                                    | <b>(47,222)</b>                   | <b>(259,971)</b>              | <b>(307,193)</b>                     |
| <b>General Fund Analysed over</b>                                      |                                  |                               |                                      |                                   |   |                                   |                               |                                      |
| Amounts uncommitted  | (7,076)                          |                               |                                      |                                   |   |                                   |                               |                                      |
| Amounts earmarked  | (29,162)                         |                               |                                      |                                   |   |                                   |                               |                                      |
| <b>Total Balance</b>   | <b>(36,238)</b>                  |                               |                                      |                                   |   |                                   |                               |                                      |

## Balance Sheet

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

| <b>31 March<br/>2021<br/>£000</b> | <b>Notes</b> |                                       | <b>31 March<br/>2022<br/>£000</b> |
|-----------------------------------|--------------|---------------------------------------|-----------------------------------|
| 314,567                           | 14           | Property, Plant and Equipment         | 324,502                           |
| 829                               | 15           | Investment property                   | 934                               |
| 82                                | 16           | Intangible Assets                     | 316                               |
| 6,841                             | 17           | Long-Term Investments                 | 7,785                             |
| 3,070                             | 38           | Long-Term Investments - Pension Asset | 10,170                            |
| 337                               | 17           | Long-Term Debtors                     | 288                               |
| <b>325,725</b>                    |              | <b>Long Term Assets</b>               | <b>343,995</b>                    |
| 37,168                            | 17           | Short-Term investments                | 48,144                            |
| 0                                 | 20           | Assets Held for Sale                  | 0                                 |
| 22,886                            | 18           | Short-Term Debtors                    | 12,240                            |
| 18,766                            | 17/19        | Cash and Cash Equivalentents          | 14,561                            |
| <b>78,821</b>                     |              | <b>Current Assets</b>                 | <b>74,733</b>                     |

|                  |        |                                      |                  |
|------------------|--------|--------------------------------------|------------------|
| (8,860)          | 17     | Short-Term Borrowing                 | 0                |
| (33,016)         | 21     | Short-Term Creditors                 | (37,367)         |
| (3,000)          | 22     | Provisions                           | (2,971)          |
| (3,553)          | 32     | Grants Receipts in Advance - Capital | (3,526)          |
| <b>(48,429)</b>  |        | <b>Current Liabilities</b>           | <b>(43,652)</b>  |
| (9,110)          | 17/21A | Long-Term Creditors                  | (9,412)          |
| (35,460)         | 17     | Long-Term Borrowing                  | (35,460)         |
| 0                | 38     | Pensions Liabilities                 | 0                |
| (1,321)          | 35     | Other Long-Term Liabilities          | (1,035)          |
| (3,034)          | 32     | Grants Receipts in Advance - Capital | (3,076)          |
| <b>(48,924)</b>  |        | <b>Long Term Liabilities</b>         | <b>(48,983)</b>  |
| <b>307,193</b>   |        | <b>Net Assets</b>                    | <b>326,093</b>   |
| (47,222)         | 23     | Usable Reserves                      | (41,995)         |
| (259,971)        | 24     | Unusable Reserves                    | (284,098)        |
| <b>(307,193)</b> |        | <b>Total Reserves</b>                | <b>(326,093)</b> |

Group Head of Finance and Section 151 Officer

## 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.

| <b>2020/21</b>  |              |  | <b>2021/22</b>  |
|-----------------|--------------|--|-----------------|
| <b>£000</b>     | <b>Notes</b> |  | <b>£000</b>     |
| (21,510)        |              | Net (surplus) or deficit on the provision of services  | (9,777)         |
| (5,945)         | 25           | Adjustments to surplus or deficit on the provision of services for non-cash movements                                    | (4,309)         |
| (3,331)         | 25           | Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing | 3,588           |
| <b>(30,786)</b> |              | <b>Net Cash flows from operating activities</b>  | <b>(10,498)</b> |
| 4,692           | 26           | Net cash flows from investing activities   | 15,874          |
| 17,265          | 27           | Net cash flows from financing activities   | (1,171)         |
| <b>(8,829)</b>  |              | <b>Net (increase) or decrease in cash and cash equivalents</b>   | <b>4,205</b>    |
| 9,937           |              | Cash and cash equivalents at the beginning of the reporting period   | 18,766          |
| <b>18,766</b>   |              | <b>Cash and cash equivalents at the end of the reporting period</b>  | <b>14,561</b>   |

## Note 1 - Accounting Policies

### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 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 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 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 statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under 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 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 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 increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

*Financial Assets 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:*

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 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 40% of the cost of new social housing, the remaining 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 is virtually certain that reimbursement will be received if the Council settles the obligation.

#### *Contingent Liabilities:*

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

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

#### *Contingent Assets:*

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

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

### **xviii. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.



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

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

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

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

## **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 participants act in their economic best interest. When measuring the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use is taken into account.

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

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

## **Note 2 - Accounting Standards Issued, Not Adopted**

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

### **IFRS 16 Leases**

Council's that are lessees would have to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities.

Following its emergency consultation on exploratory proposals for changing the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA/LASAAC issued its preliminary decision and feedback statement in late March. This decision has subsequently been considered by the government's Financial Reporting Advisory Board (FRAB). FRAB's advice to CIPFA/LASAAC was that it agreed with the deferral of IFRS 16 Leases until 1 April 2024 but that the Code had to allow and encourage local authorities to adopt the standard in the preceding reporting periods.

At this present time, the earliest the Council would consider implementing IFRS 16 is 1 April 2023 and is expected to have some impact on the accounts.

### **IFRS 1 First-time adoption**

Amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS

IFRS 1 will have no impact on the Council.

### **IAS 37 Onerous contracts**

Clarifies the intention of the standard.

IAS 37 will have no impact on the Council.

### **IAS 41 Agriculture**

One of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

IAS41 will have not 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.
- 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 has considered 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 has remained dormant and there are no implications for the 2021/22 accounts. The Economy Committee approved the closure of the Company on 29 March 2022 and actions were underway to action this at 31 March 2022.
- 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 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| <b>Item</b>                   | <b>Uncertainties</b>   | <b>Effect if actual results differ from assumptions</b>  |
|-------------------------------|--|--|
| 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 £368k for every year that useful lives had to be reduced.   |
| Pensions Liability            | Estimation of the net liability to pay pensions depends on several 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 0.1% decrease in the Real Discount Rate assumption would result in an increase in the pension liability of £3,459 million.<br><br>However, the assumptions interact in complex ways. During 2021/22, the Council's actuaries advised that the net pension asset had increased by £7.10 million attributable to changes in favourable financial assumptions. |
| Bad Debt Impairment           | The Council has made allowances for bad debt impairment of £1.889 million in 2021/22 (£1.711 million in 2020/21) 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 £94k (£86k in 2020/21).   |
| Provisions                    | A provision of £2.97m 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 2021/22 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 £297k.   |

|                                |   |  |
|--------------------------------|---|--|
| <p>Fair Value Measurements</p> | <p>When the fair values of financial assets and financial 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. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to 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. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's chief valuation officer and external valuer).</p> <p>Information about the valuation techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in notes 1 and 15.</p> | <p>Significant changes in any of the relevant factors or assumptions would result in a significantly lower or higher fair value measurement for the asset.</p> |
|--------------------------------|---|--|

## Note 5 - Material Items of Income and Expense

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

## Note 6 - Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Group Head of Finance and Section 151 Officer on 28 February 2023. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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

|  |  |   |   | <b>2021/22</b>                 |
|--|--|---|---|--------------------------------|
| <b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts</b>   | <b>Adjustments for Capital Purposes (Note 1) £'000</b> | <b>Net change for the Pensions Adjustments (Note 2) £'000</b> | <b>Other Differences (Note 3) £'000</b> | <b>Total Adjustments £'000</b> |
| Corporate Support Committee  | 28   | 836   | (60)                                    | 804                            |
| Economy Committee  | 292  | 151   | (11)                                    | 433                            |
| Environment Committee  | 571  | 684   | (46)                                    | 1,209                          |
| Housing & Wellbeing Committee  | 173  | 608   | (35)                                    | 746                            |
| Local authority housing (HRA)  | (10,969)   | 264   | (15)                                    | (10,720)                       |
| Planning Committee   | -  | 285   | (23)                                    | 262                            |
| Policy & Finance Committee   | -  | 335   | (46)                                    | 289                            |
| Non distributed costs / (gains)  | -  | 5   | -                                       | 5                              |
| <b>Net Cost of Services</b>  | <b>(9,906)</b>   | <b>3,170</b>  | <b>(236)</b>                            | <b>(6,973)</b>                 |
| <b>Other income and expenditure from the Expenditure and Funding Analysis</b>  | <b>(2,877)</b>   | <b>(1,319)</b>  | <b>(4,911)</b>                          | <b>(9,108)</b>                 |
| <b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b> | <b>(12,783)</b>  | <b>1,851</b>  | <b>(5,148)</b>                          | <b>(16,080)</b>                |

|  |  |   |   | <b>2020/21</b>                 |
|--|--|---|---|--------------------------------|
| <b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts</b>   | <b>Adjustments for Capital Purposes (Note 1) £'000</b> | <b>Net change for the Pensions Adjustments (Note 2) £'000</b> | <b>Other Differences (Note 3) £'000</b> | <b>Total Adjustments £'000</b> |
| Corporate Support Committee  | 75   | 367   | 83                                      | 524                            |
| Economy Committee  | 304  | 70  | 15                                      | 389                            |
| Environment Committee  | 649  | 281   | 56                                      | 986                            |
| Housing & Wellbeing Committee  | (1,743)  | 232   | 37                                      | (1,474)                        |
| Local authority housing (HRA)  | (12,945)   | 91  | 15                                      | (12,839)                       |
| Planning Committee   | -  | 131   | 23                                      | 154                            |
| Policy & Finance Committee   | -  | 144   | 52                                      | 196                            |
| Non distributed costs / (gains)  | -  | 59  | -                                       | 59                             |
| <b>Net Cost of Services</b>  | <b>(13,660)</b>  | <b>1,375</b>  | <b>280</b>                              | <b>(12,005)</b>                |
| <b>Other income and expenditure from the Expenditure and Funding Analysis</b>  | <b>(1,526)</b>   | <b>(1,454)</b>  | <b>8,951</b>                            | <b>5,972</b>                   |
| <b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b> | <b>(15,186)</b>  | <b>(79)</b>   | <b>9,231</b>                            | <b>(6,033)</b>                 |

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

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

|   | <b>2020/21</b><br><b>£'000</b> | <b>2021/22</b><br><b>£'000</b> |
|---|--------------------------------|--------------------------------|
| <b>Expenditure / Income</b>                                       |                                |                                |
| <b>Expenditure</b>  |                                |                                |
| Salaries  | 10,341                         | 10,925                         |
| Employee benefits expenses  | 3,537                          | 5,438                          |
| Other services expenses   | 72,593                         | 73,589                         |
| Support service recharges   | 0                              | 0                              |
| Depreciation, amortisation, impairment                            | (7,655)                        | (3,354)                        |
| Interest payments   | 5,286                          | 5,609                          |
| Precepts and levies   | 5,039                          | 5,133                          |
| Payments to Housing Capital Receipts Pool                         | 213                            | 449                            |
| Loss on the disposal of assets                                    | 0                              | 0                              |
| <b>Total expenditure</b>  | <b>89,355</b>                  | <b>97,788</b>                  |
| <b>Income</b>   |                                |                                |
| Fees, charges and other service income                            | 26,181                         | 28,873                         |
| Interest and investment income                                    | 4,426                          | 4,613                          |
| Income from council tax, non-domestic rates, district rate income | 10,316                         | 17,278                         |
| Government grants and contributions                               | 66,845                         | 56,142                         |
| Gain on the disposal of assets                                    | 263                            | 658                            |
| <b>Total income</b>   | <b>108,031</b>                 | <b>107,565</b>                 |
| <b>(Surplus) or Deficit on the Provision of Services</b>          | <b>(18,676)</b>                | <b>(9,777)</b>                 |



## Note 9 - Adjustments between Accounting Basis and Funding Basis under Regulations

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

| 2021/2022  | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|--|----------------------|-------------------------|--------------------------|-----------------------|--------------------------|-------------------------------|
|  | £000                 | £000                    | £000                     | £000                  | £000                     | £000                          |
| <b>Adjustments to the Revenue Resources</b>  |                      |                         |                          |                       |                          |                               |
| 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)   | (1,764)              | 10,023                  |                          |                       |                          | (8,259)                       |
| Financial Instruments (transferred to the Financial Instruments Adjustments Account)   | 0                    | 0                       |                          |                       |                          | 0                             |
| Changes in fair value of pooled investments  | 0                    | 0                       |                          |                       |                          | 0                             |
| Council tax and NDR (transfers to or from the Collection Fund)   | 4,806                |                         |                          |                       |                          | (4,806)                       |
| Holiday pay (transferred to the Accumulated Absences reserve)  | 221                  | 15                      |                          |                       |                          | (236)                         |
| 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)                   | 683                  | 0                       |                          |                       | (1,641)                  | 958                           |
| <b>Total Adjustments to Revenue Resources</b>  | <b>3,946</b>         | <b>10,038</b>           | <b>0</b>                 | <b>0</b>              | <b>(1,641)</b>           | <b>(12,344)</b>               |
| <b>Adjustments between Revenue and Capital Resources</b>   |                      |                         |                          |                       |                          |                               |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve   | 108                  | 1,839                   | (1,948)                  |                       |                          |                               |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)  | (449)                |                         | 449                      |                       |                          |                               |
| Posting of Housing Revenue Account resource from revenue to the Major Repairs Reserve  |                      | 6,552                   |                          | (6,552)               |                          |                               |
| 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)   | 219                  | 82                      |                          |                       |                          | (301)                         |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)  | 1,059                | 0                       |                          |                       |                          | (1,059)                       |
| <b>Total Adjustments between Revenue and Capital Resources</b>   | <b>937</b>           | <b>8,473</b>            | <b>(1,499)</b>           | <b>(3,008)</b>        | <b>0</b>                 | <b>(4,904)</b>                |
| <b>Adjustments to Capital Resources</b>  |                      |                         |                          |                       |                          |                               |
| Use of the Capital Receipts Reserve to finance capital expenditure   |                      |                         | 1,396                    |                       |                          | (1,396)                       |
| Use of the Major Repairs Reserve to finance new capital expenditure  |                      |                         |                          | 2,467                 |                          | (2,467)                       |
| Application of capital grants to finance capital expenditure   |                      |                         |                          |                       | 1,208                    | (1,208)                       |
| <b>Total Adjustments to Capital Resources</b>  | <b>0</b>             | <b>0</b>                | <b>1,396</b>             | <b>2,467</b>          | <b>1,208</b>             | <b>(5,072)</b>                |
| Other adjustments  | 0                    | 0                       | 0                        | 0                     | 0                        | 0                             |
| <b>Total Adjustments</b>   | <b>4,882</b>         | <b>18,511</b>           | <b>(102)</b>             | <b>(540)</b>          | <b>(433)</b>             | <b>(22,319)</b>               |

| <b>2020/2021</b>   | <b>General Fund<br/>Balance</b> | <b>Housing<br/>Revenue<br/>Account</b> | <b>Capital<br/>Receipts<br/>Reserve</b> | <b>Major<br/>Repairs<br/>Reserve</b> | <b>Capital<br/>Grants<br/>Unapplied</b> | <b>Movement<br/>in<br/>Unusable<br/>Reserves</b> |
|--|---------------------------------|--|---|--------------------------------------|---|--|
|  | <b>£000</b>                     | <b>£000</b>                            | <b>£000</b>                             | <b>£000</b>                          | <b>£000</b>                             | <b>£000</b>                                      |
| <b>Adjustments to the Revenue Resources</b>  |                                 |  |   |                                      |   |  |
| 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)  |
| <b>Total Adjustments to Revenue Resources</b>  | <b>(7,844)</b>                  | <b>6,913</b>                           | <b>0</b>                                | <b>0</b>                             | <b>(748)</b>                            | <b>1,679</b>                                     |
| <b>Adjustments between Revenue and Capital Resources</b>   |                                 |  |   |                                      |   |  |
| 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)   |
| <b>Total Adjustments between Revenue and Capital Resources</b>   | <b>145</b>                      | <b>6,819</b>                           | <b>(708)</b>                            | <b>(2,461)</b>                       | <b>0</b>                                | <b>(3,795)</b>                                   |
| <b>Adjustments to Capital Resources</b>  |                                 |  |   |                                      |   |  |
| 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)  |
| <b>Total Adjustments to Capital Resources</b>  | <b>0</b>                        | <b>0</b>                               | <b>1,589</b>                            | <b>1,823</b>                         | <b>531</b>                              | <b>(3,944)</b>                                   |
| Other adjustments  | 0                               | 0                                      | 0                                       | 0                                    | 0                                       | 0  |
| <b>Total Adjustments</b>   | <b>(7,699)</b>                  | <b>13,732</b>                          | <b>881</b>                              | <b>(638)</b>                         | <b>(217)</b>                            | <b>(6,060)</b>                                   |

## Note 10 - Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2021/22.

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 remaining reserves are shown grouped by service portfolios including approved but delayed revenue projects; or grants and contributions received from partnership bodies in advance of allocation to specific projects.

|                                       | Restated<br>Balance<br>at 1st<br>April<br>2020 | Transfers<br>out<br>2020/21 | Transfers<br>in<br>2020/21 | Balance<br>as at 31<br>Mar 2021 | Transfers<br>out<br>2021/22 | Transfers<br>in<br>2021/22 | Balance<br>as at<br>31st Mar<br>2022 |
|---------------------------------------|--|-----------------------------|----------------------------|---------------------------------|-----------------------------|----------------------------|--------------------------------------|
| Committee                             | £'000  | £'000                       | £'000                      | £'000                           | £'000                       | £'000                      | £'000                                |
| Corporate Support<br>Committee        | (7,874)  | 1,592                       | (11,546)                   | (17,829)                        | 18,612                      | (18,184)                   | (17,401)                             |
| Delayed Capital &<br>Special Projects | (3,044)  | 3,044                       | (4,923)                    | (4,923)                         | 4,923                       | (3,474)                    | (3,474)                              |
| Economy Committee                     | (683)  | 252                         | (818)                      | (1,248)                         | 626                         | (1,119)                    | (1,741)                              |
| Environment Committee                 | (1,912)  | 198                         | (834)                      | (2,548)                         | 790                         | (576)                      | (2,334)                              |
| Housing and Wellbeing<br>Committee    | (1,727)  | 224                         | (643)                      | (2,145)                         | 949                         | (641)                      | (1,837)                              |
| Planning Policy<br>Committee          | (528)  | 348                         | (290)                      | (469)                           | 291                         | (568)                      | (746)                                |
| <b>Total</b>                          | <b>(15,768)</b>                                | <b>5,659</b>                | <b>(19,052)</b>            | <b>(29,162)</b>                 | <b>26,191</b>               | <b>(24,562)</b>            | <b>(27,533)</b>                      |

## Note 11 - Other Operating Expenditure

| 2020/21      |  | 2021/22      |
|--------------|--|--------------|
| £'000        |  | £'000        |
| 4,832        | Precepts   | 4,877        |
| 207          | Levies   | 256          |
| 213          | Payments to the Government Housing Capital Receipts Pool | 449          |
| (660)        | Gains/losses on the Disposal of Non-Current Assets       | (948)        |
| <b>4,593</b> | <b>Total Other Operating Expenditure</b>                 | <b>4,634</b> |

## Note 12 - Financing and Investment Income and Expenditure

| 2020/21    |   | 2021/22    |
|------------|---|------------|
| £'000      |   | £'000      |
| 1,479      | Interest payable and similar charges  | 1,469      |
| 9          | Net interest on the net defined benefit liability (asset)                                   | (43)       |
| (629)      | Interest receivable and similar income  | (464)      |
| (21)       | Income and expenditure in relation to investment properties and changes in their fair value | (177)      |
| 1          | Changes in impairment loss allowance of financial instruments                               | 34         |
| <b>838</b> | <b>Total</b>  | <b>818</b> |

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

| 2020/21         |   | 2021/22         |
|-----------------|---|-----------------|
| £'000           |   | £'000           |
| (16,228)        | Council tax income                        | (16,823)        |
| 5,912           | Non-domestic rates income and expenditure | (455)           |
| (20,239)        | Non-ringfenced government grants          | (11,372)        |
| (748)           | Capital grants and contributions          | (1,641)         |
| <b>(31,303)</b> | <b>Total</b>                              | <b>(30,291)</b> |

## Note 14 - Property, Plant and Equipment

| Movements to 31 March 2022   |                   |                    |  |                       |                  |                |                           |                                     |
|--|-------------------|--------------------|--|-----------------------|------------------|----------------|---------------------------|-------------------------------------|
|  | 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                               |
| <b>Cost or Valuation</b>   |                   |                    |  |                       |                  |                |                           |                                     |
| <b>at 1 April 2021</b>   | 231,758           | 68,562             | 7,897                                  | 14,260                | 2,822            | 104            | 2,407                     | <b>327,810</b>                      |
| Additions  | 4,043             | 173                | 565                                    | 1,139                 | 0                | 0              | 2,415                     | <b>8,335</b>                        |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve                          | 0                 | (1,471)            | 0                                      | 0                     | 0                | 24             | 0                         | <b>(1,447)</b>                      |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | 4,723             | 238                | 0                                      | 0                     | 0                | 0              | 0                         | <b>4,961</b>                        |
| Reclassifications and transfer   | 0                 | 0                  | 0                                      | 0                     | 0                | 0              | 0                         | <b>0</b>                            |
| Derecognition/Disposal   | (116)             | 0                  | (192)                                  | 0                     | 0                | 0              | 0                         | <b>(307)</b>                        |
| Assets reclassified (to)/from Held for Sale  | (868)             | 0                  | 0                                      | 0                     | 0                | 0              | 0                         | <b>(868)</b>                        |
| <b>at 31 March 2022</b>  | <b>239,539</b>    | <b>67,502</b>      | <b>8,270</b>                           | <b>15,399</b>         | <b>2,822</b>     | <b>128</b>     | <b>4,823</b>              | <b>338,483</b>                      |
| Op Bal 2021  | 231,758           | 68,562             | 7,897                                  | 14,260                | 2,822            | 104            | 2,407                     | 327,810                             |
| <b>Accumulated Depreciation and Impairment</b>   |                   |                    |  |                       |                  |                |                           |                                     |
| <b>at 1 April 2021</b>   | 0                 | (149)              | (2,615)                                | (10,479)              | 0                | 0              | 0                         | <b>(13,244)</b>                     |
| Depreciation charge  | (6,246)           | (939)              | (656)                                  | (256)                 | 0                | 0              | 0                         | <b>(8,098)</b>                      |
| Depreciation written out to the Revaluation Reserve  | 0                 | 675                | 0                                      | 0                     | 0                | 0              | 0                         | <b>675</b>                          |
| Derecognition/Disposal   | 0                 | 0                  | 176                                    | 0                     | 0                | 0              | 0                         | <b>176</b>                          |
| Depreciation written out to the Surplus/Deficit on the Provision of Services                     | 6,246             | 264                | 0                                      | 0                     | 0                | 0              | 0                         | <b>6,510</b>                        |
| <b>at 31 March 2022</b>  | <b>0</b>          | <b>(150)</b>       | <b>(3,096)</b>                         | <b>(10,736)</b>       | <b>0</b>         | <b>0</b>       | <b>0</b>                  | <b>(13,981)</b>                     |
| <b>Net Book Value</b>  |                   |                    |  |                       |                  |                |                           |                                     |
| <b>at 31 March 2022</b>  | <b>239,539</b>    | <b>67,352</b>      | <b>5,175</b>                           | <b>4,663</b>          | <b>2,822</b>     | <b>128</b>     | <b>4,823</b>              | <b>324,502</b>                      |
| <b>at 31 March 2021</b>  | <b>231,758</b>    | <b>68,412</b>      | <b>5,282</b>                           | <b>3,780</b>          | <b>2,822</b>     | <b>104</b>     | <b>2,407</b>              | <b>314,567</b>                      |

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

## 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 2022, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2021/22, budgeted to cost £5.6m. Similar commitments at 31 March 2021 were £3.7m and for 31 March 2020 was £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.

| <b>Property, Plant and Equipment Revaluations</b> |                          |                                 |                                      |                              |                         |                       |                                  |                |
|---|--------------------------|---------------------------------|--------------------------------------|------------------------------|-------------------------|-----------------------|----------------------------------|----------------|
|   | <b>Council Dwellings</b> | <b>Other Land and Buildings</b> | <b>Vehicles, Plant and Equipment</b> | <b>Infrastructure Assets</b> | <b>Community Assets</b> | <b>Surplus Assets</b> | <b>Assets under Construction</b> | <b>Total</b>   |
|   | <b>£'000</b>             | <b>£'000</b>                    | <b>£'000</b>                         | <b>£'000</b>                 | <b>£'000</b>            | <b>£'000</b>          | <b>£'000</b>                     | <b>£'000</b>   |
| <b>Carried at historical cost</b>                 | 0                        | 0                               | 5,175                                | 4,663                        | 2,822                   | 0                     | 4,823                            | 17,483         |
| <b>Valued at current value as at:</b>             |                          |                                 |                                      |                              |                         |                       |                                  |                |
| <b>31/03/2022</b>                                 | 239,539                  | 56,494                          | 0                                    | 0                            | 0                       | 120                   | 0                                | 296,153        |
| <b>31/03/2021</b>                                 | 0                        | 2,485                           | 0                                    | 0                            | 0                       | 0                     | 0                                | 2,485          |
| <b>31/03/2020</b>                                 | 0                        | 2,623                           | 0                                    | 0                            | 0                       | 8                     | 0                                | 2,631          |
| <b>31/03/2019</b>                                 | 0                        | 5,750                           | 0                                    | 0                            | 0                       | 0                     | 0                                | 5,750          |
| <b>Total Cost or Valuation</b>                    | <b>239,539</b>           | <b>67,352</b>                   | <b>5,175</b>                         | <b>4,663</b>                 | <b>2,822</b>            | <b>128</b>            | <b>4,823</b>                     | <b>324,502</b> |

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

The Council does not have material surplus Assets.



## Note 15 - Investment Properties

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

| <b>2020/21</b> |  | <b>2021/22</b> |
|----------------|--|----------------|
| <b>£'000</b>   | <b>Investment Property Income and Expenditure</b>  | <b>£'000</b>   |
| (71)           | Rental income from investment property             | (71)           |
| 53             | Direct operating expenses from investment property | 3              |
| (2)            | Other income and expenditure                       | (3)            |
| <b>(20)</b>    | <b>Net (gain)/loss</b>                             | <b>(71)</b>    |

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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

| <b>2020/21</b>     |  | <b>2021/22</b>     |
|--------------------|--|--------------------|
| <b>Non-Current</b> |  | <b>Non-Current</b> |
| <b>£'000</b>       | <b>Investment Properties Movements in Year</b> | <b>£'000</b>       |
| 827                | Opening Balance                                | 829                |
| 1                  | Net gains/losses from fair value adjustments   | 106                |
|                    | Transfers:                                     |                    |
| 0                  | to/from Property Plant and Equipment           | 0                  |
| <b>829</b>         | <b>Balance at the end of the year</b>          | <b>935</b>         |

The fair value of the Council's investment property is measured annually at each reporting date. All valuations are carried out by the Council's external 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 2022 and 2021 is as follows:

| Recurring fair value measurements using: | Quoted prices in active markets for identical assets (Level 1) | Other significant observable inputs | Significant unobservable inputs (Level 3) | Fair value as at 31 March 2022 |
|--|--|-------------------------------------|---|--------------------------------|
|  |  | (Level 2)                           |   |                                |
|  | £000   | £000                                | £000                                      | £000                           |
| Commercial unit                          |  |                                     | 935                                       | 935                            |
| <b>Total</b>                             | -  | -                                   | <b>935</b>                                | <b>935</b>                     |

## Comparative Figures

| Recurring fair value measurements using: | Quoted prices in active markets for identical assets (Level 1) | Other significant observable inputs | Significant unobservable inputs (Level 3) | Fair value as at 31 March 2021 |
|--|--|-------------------------------------|---|--------------------------------|
|  |  | (Level 2)                           |   |                                |
|  | £000   | £000                                | £000                                      | £000                           |
| Commercial unit                          |  |                                     | 829                                       | 829                            |
| <b>Total</b>                             | -  | -                                   | <b>829</b>                                | <b>829</b>                     |

## Transfers between Levels of Fair Value Hierarchy

There were no transfers between levels during the year.

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

Significant Unobservable Inputs - Level 3:

The commercial 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).

## 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:

| <b>2020/21</b> |   | <b>2021/22</b> |
|----------------|---|----------------|
| <b>Total</b>   |   | <b>Total</b>   |
| <b>£'000</b>   |   | <b>£'000</b>   |
|                | Balance at start of year:                   |                |
| 425            | Gross carrying amounts                      | 462            |
| (336)          | Accumulated amortisation                    | (380)          |
| <b>89</b>      | <b>Net carrying amount at start of year</b> | <b>82</b>      |
|                | Additions:                                  |                |
| 37             | Purchases                                   | 252            |
| (44)           | Amortisation for the period                 | (19)           |
| <b>82</b>      | <b>Net carrying amount at end of year</b>   | <b>233</b>     |
|                | Derocognition/Sale:                         |                |
| 0              | Gross carrying amounts                      | (36)           |
| 0              | Accumulated amortisation                    | 36             |
| <b>82</b>      | <b>Total</b>                                | <b>0</b>       |
|                | Comprising:                                 |                |
| 462            | Gross carrying amounts                      | 679            |
| (380)          | Accumulated amortisation                    | (363)          |
| <b>82</b>      | <b>Total</b>                                | <b>316</b>     |

## Note 17 - Financial Instruments

|                                   | Non Current             |                            |                         |                            | Current                 |                         |                         |                         | Total         | Total         |
|-----------------------------------|-------------------------|----------------------------|-------------------------|----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------|---------------|
|                                   | Investments             |                            | Debtors                 |                            | Investments             |                         | Debtors                 |                         |               |               |
|                                   | 31 Mar<br>2021<br>£'000 | 31<br>Mar<br>2022<br>£'000 | 31 Mar<br>2021<br>£'000 | 31<br>Mar<br>2022<br>£'000 | 31 Mar<br>2021<br>£'000 | 31 Mar<br>2022<br>£'000 | 31 Mar<br>2021<br>£'000 | 31 Mar<br>2022<br>£'000 |               |               |
| Fair value through Profit or loss | 6,841                   | 7,785                      | -                       | -                          | -                       | -                       | -                       | -                       | 6,841         | 7,785         |
| Amortised cost                    | -                       | -                          | -                       | -                          | 55,766                  | 62,561                  | -                       | -                       | 55,766        | 62,561        |
| <b>Total financial assets</b>     | <b>6,841</b>            | <b>7,785</b>               | <b>-</b>                | <b>-</b>                   | <b>55,766</b>           | <b>62,561</b>           | <b>-</b>                | <b>-</b>                | <b>62,608</b> | <b>70,347</b> |
| Non-financial assets              | -                       | -                          | -                       | -                          | -                       | -                       | -                       | -                       | -             | -             |
| Accrued interest                  | -                       | -                          | -                       | -                          | 169                     | 144                     | -                       | -                       | 169           | 144           |
| Debtors                           | -                       | -                          | 337                     | 288                        | -                       | -                       | 5,877                   | 7,386                   | 6,214         | 7,673         |
| <b>Total</b>                      | <b>6,841</b>            | <b>7,785</b>               | <b>337</b>              | <b>288</b>                 | <b>55,935</b>           | <b>62,706</b>           | <b>5,877</b>            | <b>7,386</b>            | <b>68,990</b> | <b>78,164</b> |

|                                     | Non-Current             |                         |                         |                         | Current                 |                         |                         |                         | Total         | Total         |
|-------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------|---------------|
|                                     | Borrowings              |                         | Creditors               |                         | Borrowings              |                         | Creditors               |                         |               |               |
|                                     | 31 Mar<br>2021<br>£'000 | 31 Mar<br>2022<br>£'000 | 31 Mar<br>2021<br>£'000 | 31 Mar<br>2022<br>£'000 | 31 Mar<br>2021<br>£'000 | 31 Mar<br>2022<br>£'000 | 31 Mar<br>2021<br>£'000 | 31 Mar<br>2022<br>£'000 |               |               |
| <b>Amortised cost</b>               |                         |                         |                         |                         |                         |                         |                         |                         |               |               |
| PWLB borrowings                     | 35,460                  | 35,460                  | -                       | -                       | 8,860                   | -                       | -                       | -                       | 44,320        | 35,460        |
| <b>Total financial assets</b>       | <b>35,460</b>           | <b>35,460</b>           | <b>-</b>                | <b>-</b>                | <b>8,860</b>            | <b>-</b>                | <b>-</b>                | <b>-</b>                | <b>44,320</b> | <b>35,460</b> |
| Non-financial liability (creditors) | -                       | -                       | 9,110                   | 9,412                   | -                       | -                       | 29,013                  | 31,720                  | 38,122        | 41,132        |
| <b>Total</b>                        | <b>35,460</b>           | <b>35,460</b>           | <b>9,110</b>            | <b>9,412</b>            | <b>8,860</b>            | <b>-</b>                | <b>29,013</b>           | <b>31,720</b>           | <b>82,442</b> | <b>76,592</b> |

## 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 2021                                    |  | 31 Mar 2022                                    |  | 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 | 2021           | 2022         |
|  | £'000  | £'000                                      | £'000  | £'000                                      | £'000          | £'000        |
| <b>Net gains/losses on:</b>                                    |  |  |  |  |                |              |
| Financial assets measured at fair value through Profit or loss | -  | (159)                                      | -  | 785  | (159)          | 785          |
| <b>Total net gains/losses</b>                                  | <b>-</b>                                       | <b>(159)</b>                               | <b>-</b>                                       | <b>785</b>                                 | <b>(159)</b>   | <b>785</b>   |
| Interest revenue   | 629  | -  | 464  | -  | 629            | 464          |
| Interest expense   | (1,479)  | -  | (1,469)  | -  | (1,479)        | (1,469)      |
| <b>Total</b>   | <b>(849)</b>                                   | <b>(159)</b>                               | <b>(1,004)</b>                                 | <b>785</b>                                 | <b>(1,008)</b> | <b>(219)</b> |

## Breakdown of financial assets and liabilities:

|  | Long-term    |              | Current       |               |
|--|--------------|--------------|---------------|---------------|
|  | 31 Mar 2021  | 31 Mar 2022  | 31 Mar 2021   | 31 Mar 2022   |
|  | £'000        | £'000        | £'000         | £'000         |
| <b>Financial assets</b>                        |              |              |               |               |
| Investments:                                   |              |              |               |               |
| <b>Amortised Cost</b>                          |              |              |               |               |
| Barclays                                       | -            | -            | 3,000         | -             |
| Development Bank of Singapore                  | -            | -            | 10,000        | 9,000         |
| Close Brothers Limited                         | -            | -            | 6,000         | 8,000         |
| Goldman Sachs International                    | -            | -            | 3,000         | 11,000        |
| Lloyds Banking Group                           | -            | -            | 1,000         | -             |
| National Westminster Bank                      | -            | -            | -             | 2,000         |
| Qatar National Bank                            | -            | -            | 10,000        | 3,000         |
| Slough BC                                      | -            | -            | 2,000         | -             |
| Standard Chartered Bank                        | -            | -            | -             | 11,000        |
| Yorkshire Building Society                     | -            | -            | 2,000         | 4,000         |
| Cash & cash equivalents                        | -            | -            | 18,766        | 14,561        |
| <b>Fair Value through Profit and Loss</b>      |              |              |               |               |
| CCLA property Fund                             | 4,856        | 5,708        | -             | -             |
| CCLA diversified Fund                          | 1,985        | 2,077        | -             | -             |
| Accrued interest                               | -            | -            | 169           | 144           |
| <b>Total investments</b>                       | <b>6,841</b> | <b>7,785</b> | <b>55,935</b> | <b>62,706</b> |
| Debtors  | 337          | 288          | 5,877         | 7,386         |
| <b>Financial liabilities at amortised cost</b> |              |              |               |               |
| Borrowings (all PWLB)                          | 35,460       | 35,460       | 8,860         | -             |
| Creditors                                      | 9,110        | 9,412        | 29,013        | 31,720        |

## 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 2021 Fair Value £'000 | 31 Mar 2022 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 | 6,902                        | 7,842                        |
| <b>Total:</b>                                  |                                     |  | <b>6,902</b>                 | <b>7,842</b>                 |

## 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 2021   |            | 31 March 2022   |            |
|------------------------------------|-----------------|------------|-----------------|------------|
|                                    | Carrying amount | Fair value | Carrying amount | Fair value |
|                                    | £'000           | £'000      | £'000           | £'000      |
| Financial liabilities (PWLB loans) | 44,320          | 60,958     | 35,460          | 47,293     |
| Long-term creditors                | -               | -          | -               | -          |
| Other Liabilities                  | 1,621           | 1,621      | 1,321           | 1,321      |
| Financial assets at Amortised cost | 55,283          | 55,322     | 62,038          | 61,978     |
| Investments at FVPL                | 6,902           | 6,902      | 7,842           | 7,842      |
| Long-term debtors                  | 337             | 337        | 288             | 288        |

The fair values calculated are as follows:

- The fair value of the PWLB loans £47million is calculated using the premature repayment method as at 31 March 2022 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 creditworthiness, 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 £69 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 the Council's deposits, but there

was no evidence at the 31 March 2022 that this was likely to materialise. The following analysis summarises the risk categories of the Council's financial assets at 31 March 2022.

|   | <b>Amount at 31 March 2022</b> |
|---|--------------------------------|
|   | <b>£'000</b>                   |
| Deposits with financial institutions:                   |                                |
| AAA rated counterparties                                | 13,950                         |
| AA rated counterparties                                 | 9,000                          |
| A rated counterparties                                  | 35,000                         |
| Local Authorities                                       | -                              |
| Part Nationalised Banks                                 | -                              |
| Building Societies with assets greater than £10 Billion | 4,000                          |
| Unrated pooled Funds                                    | 7,000                          |
| <b>Total</b>  | <b>68,950</b>                  |

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

The Council does not generally allow credit for customers, such that £553k of the £7.7 million balance is past its due date for payment. (This excludes housing rent arrears, where an aged debt analysis is not available). The past due but not impaired amount of other debts can be analysed by age as follows:

|                         | <b>31 March 2021</b> | <b>31 March 2022</b> |
|-------------------------|----------------------|----------------------|
|                         | <b>£'000</b>         | <b>£'000</b>         |
| Less than three months  | 65                   | 186                  |
| Three to nine months    | 62                   | 126                  |
| Nine months to one year | 45                   | 11                   |
| More than one year      | 273                  | 230                  |
| <b>Total</b>            | <b>445</b>           | <b>553</b>           |

## **Liquidity Risk**

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



|                              | <b>31 March 2021</b> | <b>31 March 2022</b> |
|------------------------------|----------------------|----------------------|
|                              | <b>£'000</b>         | <b>£'000</b>         |
| Less than one year           | 8,860                | -                    |
| Between one and two years    | -                    | -                    |
| 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               |
| <b>Total</b>                 | <b>44,320</b>        | <b>35,460</b>        |

## 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 2022, 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 £111k.

### *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

| 2020/21       |                          | 2021/22       |
|---------------|--------------------------|---------------|
| £'000         | ....                     | £'000         |
| 3,262         | Trade Receivables        | 3,318         |
| 752           | Prepayments              | 821           |
| 18,872        | Other Receivable Amounts | 8,102         |
| <b>22,886</b> | <b>Total</b>             | <b>12,240</b> |

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

## Note 19 - Cash and Cash Equivalents

| 2020/21       |  | 2021/22       |
|---------------|--|---------------|
| £'000         | ....                                   | £'000         |
| 591           | Cash and Bank balances                 | 611           |
| 18,175        | Short Term Deposits / Cash Equivalents | 13,950        |
| <b>18,766</b> | <b>Total Cash and Cash Equivalents</b> | <b>14,561</b> |

## Note 20 - Assets Held for Sale

| Current<br>2020/21 |   | Current<br>2021/22 |
|--------------------|---|--------------------|
| £'000              | ....                                      | £'000              |
| 0                  | Balance outstanding at start of year      | 0                  |
|                    | Assets newly classified as held for sale: |                    |
| 261                | - Property Plant and Equipment            | 868                |
| (261)              | - Assets sold                             | (868)              |
| <b>0</b>           | <b>Balance Outstanding year end</b>       | <b>0</b>           |

## Note 21 - Creditors

| 2020/21         |                        | 2021/22         |
|-----------------|------------------------|-----------------|
| £'000           |                        | £'000           |
| (3,854)         | Trade payables         | (8,620)         |
| (29,161)        | Other payables         | (28,747)        |
| <b>(33,016)</b> | <b>Total Creditors</b> | <b>(37,367)</b> |

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

## Note 21A - Long Term Creditors

| 2020/21        |  | 2021/22        |
|----------------|--|----------------|
| £'000          |  | £'000          |
| (9,110)        | s.106 1990 Town & Country Planning Act | (9,412)        |
| <b>(9,110)</b> | <b>Total Long Term Creditors</b>       | <b>(9,412)</b> |

The authority receives contributions from developers under the provisions of Section 106 of the 1990 Town and Country Planning Act. Unspent amounts are only carried on the balance sheet when there are conditions or restrictions. When the conditions are met, then it's recognised as income. If there are no restrictions/conditions, then it gets recognised as income and put in capital grants unapplied.

## Note 22 - Provisions

### Long Term Provisions

| 2020/21        |                                   | 2021/22        |
|----------------|-----------------------------------|----------------|
| £'000          |                                   | £'000          |
| (1,679)        | Opening Balance                   | (3,000)        |
| (535)          | Increase in provision during year | (1,183)        |
| 891            | Utilised during year              | 1,212          |
| (1,679)        | Other movements                   |                |
| <b>(3,000)</b> | <b>Closing Balance</b>            | <b>(2,971)</b> |

Following the introduction of the Business Rate Retention scheme the Council has assumed responsibility for a share of the cost of any refunds resulting from successful appeals by local businesses against the rateable value of their premises or the amount of rate relief (if any) they have been granted. The provision of £2.971m represents the Council's share of the

estimated amounts which will be funded in respect of all business rate liability for 2021/22 and earlier years resulting from successful appeals.

The other movements in 2020/21 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

| 2020/21          |   | 2021/22          |
|------------------|---|------------------|
| £'000            |   | £'000            |
| (26,742)         | Revaluation Reserve                       | (25,538)         |
| 159              | Financial Instruments Revaluation Reserve | (785)            |
| (239,985)        | Capital Adjustment Account                | (252,124)        |
| (3,070)          | Pension Reserve                           | (10,170)         |
| 9,283            | Collection Fund Adjustment Account        | 4,372            |
| 384              | Accumulated Absences Account              | 147              |
| <b>(259,971)</b> | <b>Total</b>                              | <b>(284,098)</b> |

### Revaluation Reserve

| 2020/21         |   | 2021/22         |
|-----------------|---|-----------------|
| £'000           |   | £'000           |
| (27,040)        | <b>Balance 1 April</b>  | (26,742)        |
| (1,210)         | Upward revaluation of assets  | (2,190)         |
| 1,097           | Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services           | 2,962           |
| <b>(113)</b>    | <b>Surplus or deficit on revaluation of non-current assets not charged to the Surplus or Deficit on the Provision of Services</b> | <b>772</b>      |
| 412             | Difference between fair value depreciation and historical cost depreciation   | 431             |
| 0               | Accumulated gains on assets sold or scrapped  | 0               |
| 0               | Other amounts written off to the Capital Adjustment Account   | 0               |
| <b>412</b>      | <b>Amount written off to the Capital Adjustment Account</b>   | <b>431</b>      |
| <b>(26,742)</b> | <b>Balance 31 March</b>   | <b>(25,538)</b> |

## Financial Instruments Revaluation Reserve

| <b>2020/21</b> |  | <b>2021/22</b> |
|----------------|--|----------------|
| <b>£'000</b>   |  | <b>£'000</b>   |
| 109            | <b>Balance 1 April</b>                             | 159            |
| 0              | Upward revaluation of investments                  | (785)          |
| 50             | Downward revaluation of investments                | (159)          |
| 0              | Change in impairment loss allowances               | 0              |
| <b>50</b>      | <b>Total Changes in revaluation and impairment</b> | <b>(944)</b>   |
| <b>159</b>     | <b>Balance 31 March</b>                            | <b>(785)</b>   |

## Capital Adjustment Account

| 2020/21          |  | 2021/22          |
|------------------|--|------------------|
| £'000            |  | £'000            |
| (224,361)        | <b>Balance 1 April</b>   | (239,985)        |
| 7,561            | Charges for depreciation and impairment of non-current assets  | 8,098            |
| (15,260)         | Revaluation losses on non-current assets   | (11,471)         |
| 44               | Amortisation of intangible assets  | 19               |
| 2,137            | Revenue expenditure funded from capital under statute  | 2,742            |
| 261              | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 1,000            |
| <b>(5,257)</b>   | Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement                              | <b>388</b>       |
| (412)            | Adjusting Amounts written out of the Revaluation Reserve   | (431)            |
| <b>(5,669)</b>   | <b>Net written out amount of the cost of non-current assets consumed in the year</b>   | <b>(43)</b>      |
| (1,589)          | Use of Capital Receipts Reserve to finance new capital expenditure   | (1,396)          |
| (1,823)          | Use of Major Repairs Reserve to finance new capital expenditure  | (2,467)          |
| (2,668)          | Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing              | (3,223)          |
| (293)            | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances  | (301)            |
| (37)             | Capital expenditure charged against the General Fund and HRA balances  | (1,059)          |
| <b>(6,410)</b>   | <b>Capital financing applied in year:</b>  | <b>(8,446)</b>   |
| (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                         | (106)            |
| 0                | Other movements  | 0                |
| <b>(239,985)</b> | <b>Balance 31 March</b>  | <b>(252,124)</b> |

## Pension Reserve

| 2020/21        |  | 2021/22         |
|----------------|--|-----------------|
| £'000          |  | £'000           |
| 414            | Balance 1 April  | (3,070)         |
| (3,405)        | Remeasurements of the net defined benefit (liability)/asset  | (8,951)         |
| 3,561          | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 5,430           |
| (3,640)        | Employer's pensions contributions and direct payments to pensioners payable in the year  | (3,579)         |
| <b>(3,070)</b> | <b>Balance 31 March</b>  | <b>(10,170)</b> |

### Collection Fund Adjustment Account

| 2020/21      |   | 2021/22      |
|--------------|---|--------------|
| £'000        |   | £'000        |
| 332          | Balance 1 April   | 9,283        |
| 8,951        | 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 | (4,911)      |
| 0            | Other movements   | 0            |
| <b>9,283</b> | <b>Balance 31 March</b>   | <b>4,372</b> |

### Accumulated Absences Account

| 2020/21    |   | 2021/22    |
|------------|---|------------|
| £'000      |   | £'000      |
| 104        | <b>Balance 1 April</b>  | 384        |
| (104)      | Settlement or cancellation of accrual made at the end of the preceding year   | 0          |
| 384        | Amounts accrued at the end of the current year  | (236)      |
|            | 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 |            |
| <b>384</b> | <b>Balance 31 March</b>   | <b>147</b> |

## Note 25 - Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

| <b>2020/21</b> |                   | <b>2021/22</b> |
|----------------|-------------------|----------------|
| <b>£'000</b>   |                   | <b>£'000</b>   |
| (749)          | Interest received | (488)          |
| 1,479          | Interest paid     | 1,469          |
| <b>730</b>     | <b>Total</b>      | <b>981</b>     |

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

| <b>2020/21</b> |  | <b>2021/22</b> |
|----------------|--|----------------|
| <b>£'000</b>   |  | <b>£'000</b>   |
| (7,561)        | Depreciation   | (8,098)        |
| 15,260         | Impairment and downward valuations   | 11,471         |
| (44)           | Amortisation   | (19)           |
| (17,755)       | (Increase)/decrease in creditors   | (4,074)        |
| 2,824          | Increase/(decrease) in debtors   | (873)          |
| 79             | Movement in pension liability  | (1,851)        |
| (262)          | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (1,000)        |
| (1,320)        | Other non-cash items charged to the net surplus or deficit on the provision of services          | 135            |
| <b>(8,779)</b> | <b>Total</b>   | <b>(4,309)</b> |

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

| <b>2020/21</b> |  | <b>2021/22</b> |
|----------------|--|----------------|
| <b>£'000</b>   |  | <b>£'000</b>   |
| (5,000)        | Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries) | 0              |
| 921            | Proceeds from the sale of property, plant and equipment, investment property and intangible assets   | 1,948          |
| 748            | Any other items for which the cash effects are investing or financing cash flows   | 1,641          |
| <b>(3,331)</b> | <b>Total</b>   | <b>3,588</b>   |



## Note 26 - Cash Flow from Investing Activities

| <b>2020/21</b> |  | <b>2021/22</b> |
|----------------|--|----------------|
| <b>£'000</b>   | ....   | <b>£'000</b>   |
| 6,919          | Purchase of property, plant and equipment, investment property and intangible assets               | 8,195          |
| 0              | Purchase of short-term and long-term investments   | 11,000         |
| (921)          | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (1,948)        |
| 0              | Proceeds from short-term and long-term investments   | 0              |
| (1,306)        | Other receipts from investing activities   | (1,373)        |
| <b>4,692</b>   | <b>Net cash flows from investing activities</b>  | <b>15,874</b>  |

## Note 27 - Cash Flow from Financing Activities

| <b>2020/21</b> |  | <b>2021/22</b> |
|----------------|--|----------------|
| <b>£'000</b>   | ....   | <b>£'000</b>   |
| 293            | Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts | 301            |
| 0              | Repayments of short- and long-term borrowing   | 8,860          |
| 16,971         | Other payments for financing activities  | (10,332)       |
| <b>17,264</b>  | <b>Net cash flows from financing activities</b>  | <b>(1,171)</b> |

## Note 28 - Agency Services

The Council provided the following agency services in 2021/22

- Collection of Penalty Notices for West Sussex County Council created a surplus in the General Fund Accounts of £139k
- 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:

| <b>2020/21</b> |                                  | <b>2021/22</b> |
|----------------|----------------------------------|----------------|
| <b>£'000</b>   |                                  | <b>£'000</b>   |
| 429            | Salaries                         | 411            |
| 0              | Allowances                       | 1              |
| 0              | Expenses                         | 0              |
| 430            | <b>Total Members' Allowances</b> | 412            |

## Note 30 - Officers' Remuneration

### Senior Officer Remuneration

| 2021/22   |         | Salary, Fees<br>and Allowances<br>£'000 | Expenses<br>Allowances<br>£'000 | Compensation<br>for Loss of<br>Office<br>£'000 | Pension<br>Contribution<br>£'000 | Total<br>£'000 |
|---|---------|---|---------------------------------|--|----------------------------------|----------------|
| Chief Executive   | 2021/22 | 73                                      | -                               | -  | 15                               | 88             |
|   | 2020/21 | 126                                     | -                               | -  | 27                               | 153            |
| Director of Place   | 2021/22 | 103                                     | -                               | -  | 22                               | 125            |
|   | 2020/21 | 101                                     | -                               | -  | 22                               | 123            |
| Director of Services  | 2021/22 | 103                                     | -                               | -  | 22                               | 125            |
|   | 2020/21 | 101                                     | -                               | -  | 22                               | 123            |
| Group Head - Policy   | 2021/22 | 76                                      | -                               | -  | 16                               | 92             |
|   | 2020/21 | 74                                      | -                               | -  | 16                               | 90             |
| Group Head - Council<br>Advice & Monitoring<br>Officer      | 2021/22 | 41                                      | -                               | -  | 8                                | 49             |
|   | 2020/21 | 38                                      | -                               | -  | 7                                | 45             |
| Group Head -<br>Corporate Support &<br>S151 Officer         | 2021/22 | 17                                      | -                               | -  | 4                                | 21             |
|   | 2020/21 | 64                                      | -                               | -  | 14                               | 78             |
| Interim Group Head -<br>Corporate Support &<br>S151 Officer | 2021/22 | 60                                      | -                               | -  | 13                               | 73             |
|   | 2020/21 | -                                       | -                               | -  | -                                | -              |
| Group Head - Planning                                       | 2021/22 | 76                                      | -                               | -  | 16                               | 92             |
|   | 2020/21 | 73                                      | -                               | -  | 16                               | 89             |
| Group Head -<br>Technical Services                          | 2021/22 | 76                                      | -                               | -  | 16                               | 92             |
|   | 2020/21 | 74                                      | -                               | -  | 16                               | 90             |
| Group Head -<br>Economy                                     | 2021/22 | 69                                      | -                               | -  | 15                               | 84             |
|   | 2020/21 | 68                                      | -                               | -  | 15                               | 83             |
| Group Head -<br>Community Wellbeing                         | 2021/22 | 76                                      | -                               | -  | 16                               | 92             |
|   | 2020/21 | 74                                      | -                               | -  | 16                               | 90             |
| Group Head -<br>Residential Services                        | 2021/22 | 81                                      | -                               | -  | 17                               | 98             |
|   | 2020/21 | 74                                      | -                               | -  | 16                               | 90             |
| Group Head -<br>Neighbourhood<br>Services                   | 2021/22 | 78                                      | -                               | -  | 17                               | 95             |
|   | 2020/21 | 76                                      | -                               | -  | 16                               | 92             |
| Total   | 2021/22 | 929                                     | -                               | -  | 197                              | 1,126          |
|   | 2020/21 | 943                                     | -                               | -  | 203                              | 1,146          |

## Officer Remuneration (continued)

The above table shows the Council's Senior Officer remuneration for the year, including employer's pension contributions.

An Interim Chief Executive was engaged by the Council for the period October 2021 to March 2022. Fees of £126k for this arrangement were paid to a third party and not included in Officers remuneration.

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 2021/22.

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:

|                      | 2020/21   | 2021/22   |     |
|----------------------|-----------|-----------|-----|
| £50,001 to £55,000   | 13        | 13        | *   |
| £55,001 to £60,000   | 7         | 5         | **  |
| £60,001 to £65,000   | 4         | 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         |     |
| <b>Total</b>         | <b>24</b> | <b>22</b> |     |

2021/22

\* Three people included by virtue of annualised salary

\*\* One person included by virtue of annualised salary

2020/21

\* 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

## 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 |            |
|---|-----------------------------------|----------|-----------------------------------|----------|--|----------|--|------------|
|   | 20/21                             | 21/22    | 20/21                             | 21/22    | 20/21                                      | 21/22    | 20/21  | 21/22      |
| £0-£20,000  | 3                                 | 0        | 0                                 | 0        | 3  | 0        | £45  | £0         |
| £20,001-£40,000                                     | 5                                 | 1        | 0                                 | 0        | 5  | 1        | £151   | £37        |
| £40,000-£60,000                                     | 4                                 | 0        | 0                                 | 0        | 4  | 0        | £193   | £0         |
| £60,001-£80,000                                     | 0                                 | 0        | 0                                 | 0        | 0  | 0        | £0   | £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         |
| <b>Total</b>  | <b>12</b>                         | <b>1</b> | <b>0</b>                          | <b>0</b> | <b>12</b>                                  | <b>1</b> | <b>£389</b>                                    | <b>£37</b> |

The total cost of £37,000 in the table above includes exit packages that have been charged to the Council's Comprehensive Income & Expenditure Statement in 2021/22 excluding accruals made for redundancies & disclosed in 2021/22.

## Note 31 - External Audit Costs

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

| 2020/21   |  | 2021/22    |
|-----------|--|------------|
| £'000     |  | £'000      |
| 55        | Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year | 102        |
| 14        | Fees payable to external auditors for the certification of grant claims and returns for the year                           | 28         |
| <b>69</b> | <b>Total</b>   | <b>130</b> |

The increase in External Audit fees is because of the final agreed settlement for rebasing 2020-21.

The reason for the increase in the certification of grant claims and returns for the year was due to increased checks.

## Note 32 - Grant Income

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

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

| <b>2020/21</b>  |   | <b>2021/22</b>  |
|-----------------|---|-----------------|
| <b>£'000</b>    |   | <b>£'000</b>    |
| (420)           | Benefits Administration Grant                                       | (401)           |
| (153)           | Localised Council Tax Support Administration                        | (156)           |
| (182)           | Business Rate Collection Allowance                                  | (180)           |
| (2,295)         | New Homes Bonus Grant   | (1,040)         |
| (12,172)        | S.31 grants paid to compensate for the loss of business rate income | (6,131)         |
| (13)            | Individual Electoral Register (IER)                                 | (29)            |
| (128)           | Other Non-Ringfenced Grants   | (306)           |
| 0               | COMF  | (1,059)         |
| (8)             | Leaving EU  | (677)           |
| (945)           | Covid-19 Hardship Relief  | 0               |
| (21)            | Covid-19 Rough Sleeping   | 0               |
| (270)           | Covid-19 New Burdens Support Grant                                  | (405)           |
| (2,373)         | Covid-19 Support Grant  | (831)           |
| (240)           | Covid-19 Self Isolation Payments                                    | 0               |
| (1,018)         | Sales, Fees & Charges Support Grant                                 | (159)           |
| (748)           | Capital Grants and Contributions                                    | (1,641)         |
| <b>(20,986)</b> | <b>Total</b>  | <b>(13,012)</b> |

## Credited to Services

| 2020/21         |                             | 2021/22         |
|-----------------|-----------------------------|-----------------|
| £'000           |                             | £'000           |
| (437)           | Community wellbeing         | (395)           |
| (51)            | Coast Protection            | (60)            |
| (315)           | Housing                     | (79)            |
| (181)           | Crime Reduction             | (129)           |
| (704)           | Leisure                     | (639)           |
| (2,012)         | Disabled Facilities Grants  | (1,618)         |
| (4,394)         | Economic Regeneration       | (4,368)         |
| -               | Family Intervention project | 0               |
| (5)             | Fuel poverty                | (15)            |
| (35,599)        | Housing Benefit Subsidy     | (32,516)        |
| (30)            | Neighbourhood Plan          | (40)            |
| (1,336)         | Homelessness                | (1,974)         |
| -               | Elections                   | (282)           |
| (518)           | Other                       | (796)           |
| <b>(45,582)</b> | <b>Total</b>                | <b>(42,911)</b> |

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

| 2020/21        |                          | 2021/22        |
|----------------|--------------------------|----------------|
| £'000          |                          | £'000          |
| (1,323)        | Disabled Facility Grant  | (1,513)        |
| 0              | Parish Councils          | (42)           |
| 0              | Leveling Up Grant        | (120)          |
| (2,230)        | Coastal Communities Fund | (1,852)        |
| <b>(3,553)</b> | <b>Total</b>             | <b>(3,526)</b> |

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

| 2020/21        |                           | 2021/22        |
|----------------|---------------------------|----------------|
| £'000          |                           | £'000          |
| (3,034)        | Developers' Contributions | (3,076)        |
| <b>(3,034)</b> | <b>Total</b>              | <b>(3,076)</b> |

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 statute (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 on 31 March 2022 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 2021/22 is shown in Note 29. During 2021/22, works and services to the value of £2k were commissioned from a company in which one member had an interest. Contracts were entered into in full compliance with the council's standing orders.

### **Officers**

The previous Chief Executive left the authority during October 2021 and repaid their outstanding car loan balance in full. No other transactions with senior officers fall within the related party definition.

### **Other Public Bodies**

Precepts and levies totalling £5.133 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

| <b>2020/21</b> |   | <b>2021/22</b>  |
|----------------|---|-----------------|
| <b>£'000</b>   |   | <b>£'000</b>    |
| 48,355         | Opening Capital Financing Requirement                         | 48,750          |
|                | Capital Investment:   |                 |
| 8,175          | Property Plant and Equipment                                  | 8,335           |
| 37             | Intangible Assets   | 252             |
| 2,137          | Revenue Expenditure Funded from Capital Under Statute         | 2,742           |
| <b>10,349</b>  | <b>Total Capital Spending</b>                                 | <b>11,329</b>   |
|                | Sources of Finance:   |                 |
| (1,589)        | Capital receipts  | (1,396)         |
| (2,668)        | Government Grants and other contributions                     | (3,223)         |
| (1,823)        | Major repairs reserve   | (2,467)         |
|                | Sums set aside from revenue:                                  |                 |
| (37)           | - Direct revenue contributions                                | (1,059)         |
| (3,544)        | - Borrowing or liabilities met from the Major Repairs Reserve | (3,544)         |
| (293)          | - Minimum revenue provision                                   | (301)           |
| <b>(9,954)</b> | <b>Total Sources of Finance</b>                               | <b>(11,990)</b> |
| <b>48,750</b>  | <b>Closing Capital Financing Requirement</b>                  | <b>48,089</b>   |

### Explanation of movements in year

| <b>2020/21</b> |  | <b>2021/22</b> |
|----------------|--|----------------|
| <b>£'000</b>   |  | <b>£'000</b>   |
| 3,285          | Increase in underlying need to borrow (unsupported by government financial assistance) | 3,184          |
| 947            | Assets acquired under finance leases   | 0              |
| (3,837)        | Other movements  | (3,845)        |
| <b>394</b>     | <b>Increase/(decrease) in Capital Financing Requirement</b>                            | <b>(661)</b>   |

## Note 35 - Leases

### Council as Lessee

#### Finance Leases

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

| 2020/21      |                             |  | 2021/22      |  |
|--------------|-----------------------------|--|--------------|--|
| £'000        |                             |  | £'000        |  |
| 1,574        | Vehicles, Plant & Equipment |  | 1,264        |  |
| <b>1,574</b> | <b>Total</b>                |  | <b>1,264</b> |  |

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

| 31-Mar-21  |                                       |  | 31-Mar-22    |  |
|--|---------------------------------------|--|--------------|--|
| £'000  |                                       |  | £'000        |  |
| Finance lease liabilities (net present value of minimum lease payments): |                                       |  |              |  |
| 301  | current                               |  | 285          |  |
| 1,321  | non-current                           |  | 1,035        |  |
| 227  | Finance costs payable in future years |  | 177          |  |
| <b>1,849</b>   | <b>Minimum lease payments</b>         |  | <b>1,497</b> |  |

The minimum lease payments will be payable over the following periods

| Minimum Lease Payments |              |   | Finance Lease Liabilities |              |
|------------------------|--------------|---|---------------------------|--------------|
| 31-Mar-21              | 31-Mar-22    |   | 31-Mar-21                 | 31-Mar-22    |
| £'000                  | £'000        |   | £'000                     | £'000        |
| 352                    | 328          | Not later than one year                           | 301                       | 285          |
| 960                    | 819          | Later than one year and not later than five years | 828                       | 711          |
| 537                    | 350          | Later than five years                             | 492                       | 324          |
| <b>1,849</b>           | <b>1,497</b> | <b>Total</b>                                      | <b>1,621</b>              | <b>1,320</b> |

#### Operating Leases

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

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

| <b>31-Mar-21</b> |   | <b>31-Mar-22</b> |
|------------------|---|------------------|
| <b>£'000</b>     |   | <b>£'000</b>     |
| 42               | Not later than one year                           | 16               |
| 23               | Later than one year and not later than five years | 9                |
| 31               | Later than five years                             | 30               |
| <b>96</b>        | <b>Total</b>                                      | <b>55</b>        |

The expenditure charged to the Comprehensive Income and Expenditure Statement in relation to these leases in 2021/22 was £85k (2020/21 £93k) representing the value of the minimum lease payments.

## Council as Lessor

### Finance Leases

The Council has no currently determined finance leases as lessor.

### Operating Leases

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

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

| <b>31-Mar-21</b> |   | <b>31-Mar-22</b> |
|------------------|---|------------------|
| <b>£'000</b>     |   | <b>£'000</b>     |
| 974              | Not later than one year                           | 872              |
| 3,164            | Later than one year and not later than five years | 2,854            |
| 10,082           | Later than five years                             | 9,504            |
| <b>14,220</b>    | <b>Total</b>                                      | <b>13,230</b>    |

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

## Note 36 - Impairment Losses

There were no material impairment losses during 2021/22

## Note 37 - Termination Benefits

The Council terminated the contract of one employee in 2021/22, incurring redundancy liabilities of £37,000. Payments were made and a liability amounting to £37,000 was incurred in 2021/22, total liabilities include additional pension strain of £17,000. 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<br>Pension Scheme |                 | Discretionary<br>Benefits<br>arrangements |                 |
|--|------------------------------------|-----------------|---|-----------------|
|  | 2020/21<br>£000                    | 2021/22<br>£000 | 2020/21<br>£000                           | 2021/22<br>£000 |
| <b>Comprehensive Income and Expenditure Statement -</b>                                      |                                    |                 |   |                 |
| <b>Cost of services:</b>   |                                    |                 |   |                 |
| Service cost comprising:   |                                    |                 |   |                 |
| * current service cost   | 3,493                              | 5,468           | -   | -               |
| * past service costs (including curtailments)  | 59                                 | 5               | -   | -               |
| * (gain)/loss from settlements   | -                                  | -               | -   | -               |
| Financing and Investment Income and Expenditure:   |                                    |                 |   |                 |
| * Net interest expense   | 9                                  | (43)            | -   | -               |
| Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services | <b>3,561</b>                       | <b>5,430</b>    | -   | -               |
| 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)             | (39,995)                           | 4,711           | -   | -               |
| * Actuarial gains and losses arising on changes in demographic assumptions                   |                                    | (1,233)         | -   | -               |
| * Actuarial gains and losses arising on changes in financial assumptions                     | 39,596                             | (12,647)        | -   | -               |
| * Other experience   | (2,126)                            | 385             | (882)                                     | (157)           |
| Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement  | <b>1,295</b>                       | <b>(3,354)</b>  | <b>(1,141)</b>                            | <b>(157)</b>    |
| <b>Movement in Reserves Statement</b>  |                                    |                 |   |                 |
| reversal of net charges made to the Surplus or deficit on                                    |                                    |                 |   |                 |
| * the Provision of Services for post-employment benefits in accordance with the Code         | 3,561                              | 5,430           | -   | -               |
| Actual amount charged against the General Fund Balance for pensions in the year:             |                                    |                 |   |                 |
| * employer's contributions payable to scheme   | 3,379                              | 3,330           | -   | -               |
| retirement benefits payable to pensioners  | -                                  | -               | 259                                       | 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 |                |
|--|---------------------------------|---------------|------------------------|----------------|
|  | 2020/21                         | 2021/22       | 2020/21                | 2021/22        |
|  | £'000                           | £'000         | £'000                  | £'000          |
| Present value of the defined benefit obligation                | (201,011)                       | (192,323)     | (4,207)                | (3,791)        |
| Fair value of plan assets                                      | 208,288                         | 206,284       | -                      | -              |
| <b>Net asset / (liability) from defined benefit obligation</b> | <b>7,277</b>                    | <b>13,961</b> | <b>(4,207)</b>         | <b>(3,791)</b> |

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

|   | Local Government Pension Scheme |                | Discretionary Benefits |          |
|---|---------------------------------|----------------|------------------------|----------|
|   | 2020/21                         | 2021/22        | 2020/21                | 2021/22  |
|   | £'000                           | £'000          | £'000                  | £'000    |
| Opening fair value of scheme assets   | 165,904                         | 208,288        | -                      | -        |
| Interest income   | 3,797                           | 4,149          | -                      | -        |
| Remeasurement gain/(loss):  |                                 |                |                        |          |
| Return on plan assets excluding the amount included in the net interest expense | 39,995                          | (4,711)        | -                      | -        |
| Other   | -                               | -              | -                      | -        |
| Contributions from employer   | 3,379                           | 3,330          | 259                    | 259      |
| Contributions from employees into the scheme                                    | 701                             | 741            | -                      | -        |
| Benefits paid   | (5,488)                         | (5,513)        | (259)                  | (259)    |
| Other   | -                               | -              | -                      | -        |
| <b>Closing fair value of scheme assets</b>                                      | <b>208,288</b>                  | <b>206,284</b> | <b>-</b>               | <b>-</b> |

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

|  | Funded liabilities              |                | Unfunded liabilities   |              |
|--|---------------------------------|----------------|------------------------|--------------|
|  | Local Government Pension Scheme |                | Discretionary Benefits |              |
|  | 2020/21                         | 2021/22        | 2020/21                | 2021/22      |
|  | £'000                           | £'000          | £'000                  | £'000        |
| Opening balance at 1 April   | 160,970                         | 201,011        | 5,348                  | 4,207        |
| Current service cost   | 3,493                           | 5,468          | -                      | -            |
| Interest cost  | 3,806                           | 4,106          | -                      | -            |
| Contributions by scheme participants                                   | 701                             | 741            | -                      | -            |
| Remeasurement (gains) and losses:                                      |                                 |                |                        |              |
| Actuarial gains/losses arising from changes in demographic assumptions | -                               | (1,233)        | -                      | -            |
| Actuarial gains/losses arising from changes in financial assumptions   | 39,596                          | (12,647)       | -                      | -            |
| Other  | (2,126)                         | 385            | (882)                  | (157)        |
| Past service cost  | 59                              | 5              | -                      | -            |
| Benefits paid  | (5,488)                         | (5,513)        | (259)                  | (259)        |
| Other  | -                               | -              | -                      | -            |
| <b>Closing balance at 31 March</b>                                     | <b>201,011</b>                  | <b>192,323</b> | <b>4,207</b>           | <b>3,791</b> |

## Local Government Pension Scheme assets comprised:

|  | Fair value of<br>scheme assets | Fair value of<br>scheme assets |
|--|--------------------------------|--------------------------------|
|  | 2020/21                        | 2021/22                        |
|  | £'000                          | £'000                          |
| <b>Cash and cash equivalents</b>           | 9,235                          | 744                            |
| <b>Equity securities by industry type:</b> |                                |                                |
| Consumer                                   | 21,638                         | -                              |
| Manufacturing                              | 12,159                         | -                              |
| Energy and utilities                       | 3,190                          | -                              |
| Financial institutions                     | 18,871                         | -                              |
| Health and care                            | 13,929                         | -                              |
| Information technology                     | 28,906                         | -                              |
| Other                                      | 6,903                          | -                              |
| <b>Debt securities:</b>                    |                                |                                |
| UK Government                              | 2,645                          | -                              |
| <b>Private Equity - All categories</b>     | 3,319                          | 4,215                          |
| <b>Real estate:</b>                        |                                |                                |
| UK property                                | 14,134                         | 20,131                         |
| Overseas property                          | -                              | -                              |
| <b>Investment funds and unit trusts:</b>   |                                |                                |
| Equities                                   | -                              | 96,527                         |
| Bonds                                      | 70,092                         | 71,303                         |
| Infrastructure                             | -                              | 8,868                          |
| Other                                      | 3,267                          | 4,496                          |
| <b>Totals</b>                              | <b>165,904</b>                 | <b>208,288</b>                 |

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

## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The West Sussex County Council Fund liabilities have been assessed by 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<br>Pension Scheme |         | Discretionary<br>Benefits |         |
|---|------------------------------------|---------|---------------------------|---------|
|   | 2020/21                            | 2021/22 | 2020/21                   | 2021/22 |
| <b>Long-term expected rate of return on assets in the scheme:</b> |                                    |         |                           |         |
| Equity investments  | 26.5%                              | (0.3%)  | -                         | -       |
| Bonds   | 26.5%                              | (0.3%)  | -                         | -       |
| Property  | 26.5%                              | (0.3%)  | -                         | -       |
| Cash  | 26.5%                              | (0.3%)  | -                         | -       |
| Mortality assumptions:  |                                    |         |                           |         |
| Longevity at 65 for current pensioners:                           |                                    |         |                           |         |
| * Men (in years)  | 22.1                               | 21.9    | 22.1                      | 21.9    |
| * Women (in years)  | 24.4                               | 24.2    | 24.4                      | 24.2    |
| Longevity at 65 for future pensioners:                            |                                    |         |                           |         |
| * Men (in years)  | 23.1                               | 22.8    | 23.1                      | 22.8    |
| * Women (in years)  | 26.1                               | 25.9    | 26.1                      | 25.9    |
| Rate of inflation   | 2.8%                               | 2.8%    | 3.3%                      | 2.8%    |
| Rate of increase in salaries                                      | 3.4%                               | 3.7%    | 3.4%                      | 3.7%    |
| Rate of increase in pensions (CPI)                                | 2.9%                               | 3.2%    | 2.9%                      | 3.2%    |
| Rate for discounting scheme liabilities                           | 2.0%                               | 2.7%    | 2.0%                      | 2.7%    |

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

| Change in assumptions at 31 March 2022           | Approx. % increase to Defined Benefit Obligation | Approx. monetary amount (£000) |
|--|--|--------------------------------|
| 0.1% decrease in Real Discount Rate              | 2.0%   | 3,459                          |
| 0.1% increase in the Salary Increase Rate        | 0.0%   | 319                            |
| 0.1% increase in the Pension Increase Rate (CPI) | 2.0%   | 3,114                          |



## **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 £3.209 million for employer contributions to the scheme in 2022/23.

The weighted average duration of the defined benefit obligation for scheme members is 19 years for 2021/22.

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/Sargeant Treatment**

No explicit additional adjustment for McCloud has been added to the current service cost for 2021/22 (or the projected service cost for 2022/23).

## **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 roll-forward calculations and therefore, an allowance for full GMP indexation was included within the closing balance sheet position.

## **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 and the historic individual member data we would need to assess the impact 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, our actuary has carried out some approximate analysis across their 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). They, 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 Arun District Council (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.

### **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 several factors including actuarial assessment of the pension fund and the Council's future plans for the delivery of the relevant services.

### **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 – Historical and Current Financial Position

At the beginning of 2021/22, the country was just starting to re-open after a further lockdown due to the Delta variant of Covid-19. Further Central Government grants had been provided to cover this period of uncertainty.

The economy recovered strongly during the summer months of 2021 with many people spending their holidays within the UK.

As the year progressed, it became apparent that to prevent the spread of a new Covid-19 variant (omicron), additional Covid-19 vaccination boosters would be required. In addition, Central Government grants were provided to assist businesses during the winter period.

As more of the world economies opened during 2021 following the pandemic, gas and oil prices started to rise, causing inflation to increase.

On 24 February 2022, Russian forces invaded Ukraine. As western economies look to source gas and oil from other sources, this has increased the price further.

To bring inflation under control, the Bank of England has been increasing the interest base rate. As at the 31 March 2022, the UK interest base rate was 0.75%. This is expected to rise further during 2022-2023 with UK inflation predicted to reach 11% by the end of 2022.

To mitigate the risk of inflation to the Council during 2022-23, an Earmarked Reserve of £500k has been created.

## Section 3 – Impact of Covid

A balanced budget for 2021/22 was set in February 2021. Although the general fund reserve has been reduced to £5m, this was due to a transfer of £2.076m from the General Fund to Earmarked Reserves rather than any adverse variance outcome.

Income streams, particularly in Planning, Building Control and Car Parking have remained buoyant during 2021/22.

The impact of Covid-19 during 2021-2022 was not as significant as 2020-2021. And the Government continued to aid local authorities with a range of support in the form of grants and relief shown below:

| <b>C-19 grants</b>                | <b>£'000</b> |
|-----------------------------------|--------------|
| Re-opening of High Streets        | 32           |
| Additional Restrictions Grant     | 1,214        |
| Restart Grant                     | 8,448        |
| Welcome Back Fund                 | 40           |
| Omicron Hospitality/Leisure Grant | 1,608        |

|                                     |               |
|-------------------------------------|---------------|
| Covid New Burdens Support Grant     | 405           |
| Covid Support Grant                 | 831           |
| Contain Outbreak Management Fund    | 1,058         |
| Covid Additional Relief Fund        | 1,955         |
| Self-Isolation                      | 211           |
| Sales, Fees and Charges             | 173           |
| Section 31 Covid Grants (ADC Share) | 4,296         |
| <b>Total</b>                        | <b>20,272</b> |

The Collection Fund had a deficit of £11.826m on 31 March 2022. This is repaid by the precepting authorities over future financial years. Arun's share of the deficit of £4.372m is shown in the Collection Fund Adjustment Account and is due to be repaid over a further two years, 2022/23 and 2023/24.

During 2021/22 the Council decided to start pursuing Trade Receivable bad debts. These were not pursued during the main period of the pandemic. Our current bad debts for 2021-22 have decreased from £387k the previous year to £318k in the current year.

It is also worth noting that the Council has established a funding resilience reserve to mitigate any adverse financial consequences arising for the Fair Funding Review (£9.8m on 31 March 2022) and the rest of the retained business rates baseline. The Council, therefore, has additional resources to absorb any potential loss of business rate income. This is a finite resource and it is expected that when the Fair Funding Review is implemented, further measures will be necessary to balance the Council's budget.

#### **Section 4 – Cash Position**

The Council had a cash balance made up of Money Market Funds, Call Account and Bank Account of £14.22 and £48m invested in short term deposits on 31 March 2022. The Council also had £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 2024 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 2022/23 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 2024. The projection of a balanced budget in 2022/23 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

| 2020/21<br>£'000 |  | 2021/22<br>£'000 |
|------------------|--|------------------|
|                  | <b>Expenditure</b>   |                  |
| 4,525            | Repairs & Maintenance  | 5,514            |
| 4,765            | Supervision & Management   | 5,711            |
| 203              | Rents, Rates, Taxes and other charges  | 256              |
| (6,940)          | Depreciation, impairments and revaluation losses of non-current assets   | (4,418)          |
| 58               | Movement in the allowance for bad debts  | 89               |
| <b>2,611</b>     | <b>Total Expenditure</b>   | <b>7,152</b>     |
|                  | <b>Income</b>  |                  |
| (15,614)         | Dwelling rents   | (15,868)         |
| (426)            | Non-dwelling rents   | (449)            |
| (501)            | Charges for services and facilities  | (663)            |
| 0                | Other  | (20)             |
| <b>(16,541)</b>  | <b>Total Income</b>  | <b>(17,000)</b>  |
| <b>(13,931)</b>  | <b>Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement</b> | <b>(9,848)</b>   |
| (515)            | (Gains)/loss on sale of HRA Fixed Assets   | (839)            |
| 1,420            | Interest Payable and Similar Charges   | 1,466            |
| 45               | HRA Interest and Investment Income   | (2)              |
| <b>(12,981)</b>  | <b>(Surplus) or Deficit for Year on HRA Services</b>   | <b>(9,223)</b>   |

## Movement on the HRA Statement

| 2020/21<br>£'000 | Movement on the HRA Statement  | 2021/22<br>£'000 |
|------------------|--|------------------|
| (7,240)          | Balance on the HRA at the end of the previous year                     | (6,489)          |
| <b>(7,240)</b>   | <b>Revised opening balance</b>   | <b>(6,489)</b>   |
| (12,981)         | (Surplus) or Deficit on the HRA Income and Expenditure Statement       | (9,222)          |
| 13,732           | Adjustments between accounting basis and funding basis under statute   | 11,819           |
| <b>751</b>       | <b>Net (increase) or decrease before transfers to or from reserves</b> | <b>2,598</b>     |
| 751              | (Increase) or decrease on the HRA for the year                         | 2,598            |
| <b>(6,489)</b>   | <b>Balance on the HRA at the end of the current year</b>               | <b>(3,891)</b>   |

| 2020/21<br>£'000 | Adjustment between accounting basis  | 2021/22<br>£'000 |
|------------------|--|------------------|
| 7,018            | Transfers to/(from) the Capital Adjustment Account   | 4,500            |
| 515              | Gain or (loss) on sale of non-current assets   | 839              |
| 171              | Contributions to or (from) the Pension Reserve   | (86)             |
| (15)             | Transfers to/(from) the Accumulated Absences Account   | 15               |
| 6,005            | Transfers to/(from) Major Repairs Reserve  | 6,552            |
| 37               | Capital expenditure funded by the HRA  | 0                |
| <b>13,731</b>    | <b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b> | <b>11,819</b>    |

## HRA Property, Plant and Equipment

| Movements to 31 March 2022   | Council Dwellings | Land and Buildings | Vehicles, Plant, Furniture & Equipment | Assets Under Construction | Total Property, Plant and Equipment |
|--|-------------------|--------------------|--|---------------------------|-------------------------------------|
|  | £'000             | £'000              | £'000                                  | £'000                     | £'000                               |
| <b>Cost or Valuation</b>   |                   |                    |  |                           |                                     |
| <b>at 1 April 2021</b>   | 231,758           | 4,683              | 3,460                                  | 2,407                     | <b>242,308</b>                      |
| Additions  | 4,043             | 5                  | 291                                    | 2,415                     | <b>6,754</b>                        |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve                          | 0                 | 207                | 0                                      | 0                         | <b>207</b>                          |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | 4,723             | 0                  | 0                                      | 0                         | <b>4,723</b>                        |
| Derecognition – disposals  |                   | 0                  | 0                                      | 0                         | <b>0</b>                            |
| Derecognition – other  | 0                 | 0                  | 0                                      | 0                         | <b>0</b>                            |
| Reclassifications and transfers  | (116)             | 0                  | (19)                                   | 0                         | <b>(135)</b>                        |
| Assets reclassified (to)/from Held for Sale  | (868)             | 0                  | 0                                      | 0                         | <b>(868)</b>                        |
| <b>at 31 March 2022</b>  | <b>239,540</b>    | <b>4,895</b>       | <b>3,731</b>                           | <b>4,822</b>              | <b>252,989</b>                      |
| <b>Accumulated Depreciation and Impairment</b>   |                   |                    |  |                           |                                     |
| <b>at 1 April 2021</b>   | 0                 | (17)               | (639)                                  | 0                         | <b>(656)</b>                        |
| Depreciation charge  | (6,246)           | (46)               | (259)                                  | 0                         | <b>(6,552)</b>                      |
| Depreciation written out to the Revaluation Reserve  | 0                 | 49                 | 0                                      | 0                         | <b>49</b>                           |
| Depreciation written out to the Surplus/Deficit on the Provision of Services                     | 6,246             | 0                  | 0                                      | 0                         | <b>6,246</b>                        |
| Derecognition – disposals  | 0                 | 0                  | 3                                      | 0                         | <b>3</b>                            |
| <b>at 31 March 2022</b>  | <b>0</b>          | <b>(14)</b>        | <b>(896)</b>                           | <b>0</b>                  | <b>(910)</b>                        |
| <b>Net Book Value</b>  |                   |                    |  |                           |                                     |
| <b>at 31 March 2022</b>  | <b>239,540</b>    | <b>4,675</b>       | <b>2,836</b>                           | <b>4,822</b>              | <b>251,872</b>                      |
| <b>at 31 March 2021</b>  | <b>231,758</b>    | <b>4,666</b>       | <b>2,821</b>                           | <b>2,407</b>              | <b>241,652</b>                      |



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

The vacant possession value of dwellings within the Council's Housing Revenue Account as at 31 March 2022 was £726 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

| 2020/21<br>£'000 | Movement                                  | 2021/22<br>£'000 |
|------------------|---|------------------|
|                  | Balance at start of year:                 |                  |
| 91               | · Gross carrying amounts                  | 128              |
| (73)             | · Accumulated amortisation                | (91)             |
| 18               | Net carrying amount at start of year      | 37               |
|                  | Additions:                                |                  |
| 37               | · Purchases                               | 185              |
| (18)             | Amortisation for the period               | 0                |
| <b>37</b>        | <b>Net carrying amount at end of year</b> | <b>222</b>       |
|                  | Comprising:                               |                  |
| 128              | · Gross carrying amounts                  | 313              |
| (91)             | · Accumulated amortisation                | (91)             |
| <b>37</b>        | <b>Net carrying amount at end of year</b> | <b>222</b>       |

## HRA Assets Held for Sale

| 2020/21<br>£'000 |  | 2021/22<br>£'000 |
|------------------|--|------------------|
| 0                | Balance outstanding at start of year     | 0                |
|                  | Assets newly classified as held for sale |                  |
| 261              | - Property Plant and Equipment           | 868              |
| (261)            | Assets sold                              | (868)            |
| <b>0</b>         | <b>Total Cash and Cash Equivalents</b>   | <b>0</b>         |

## Notes to the HRA Account

| 31 March 2021 |                    | 31 March 2022 |  |
|---------------|--------------------|---------------|--|
| No.           | Dwelling type      | No.           |  |
| 170           | Bedsits            | 170           |  |
| 1,600         | Flats              | 1,608         |  |
| 1,612         | Houses / bungalows | 1,604         |  |
| 2             | Hostels            | 2             |  |
| <b>3,384</b>  | <b>Total</b>       | <b>3,384</b>  |  |

## Housing Revenue Account Capital Expenditure

| 2020/21<br>£'000 |                                 | 2021/22<br>£'000 |
|------------------|---------------------------------|------------------|
|                  | <b>Capital investment</b>       |                  |
| 6,388            | Operational assets              | 4,524            |
| 1,031            | Non-operational assets          | 2,415            |
| <b>7,419</b>     | <b>Total Capital Spending</b>   | <b>6,940</b>     |
|                  | <b>Sources of funding</b>       |                  |
| -37              | Housing Revenue                 | 0                |
| -1,327           | Capital Receipts                | -1,288           |
| -1,823           | Major Repairs Reserve           | -2,467           |
| -947             | Acquired under finance lease    | 0                |
| -3,285           | Unfinanced                      | -3,184           |
| <b>-7,419</b>    | <b>Total Sources of Finance</b> | <b>-6,940</b>    |

## Rent Arrears

Tenants' arrears at 31 March 2022 were £1,229k (previous year £1,152k). The provision for doubtful debts amounted to £277k (previous year £201k).

## 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 2021  |                      |                  | 31 March 2022  |                         |                      |                  |
|--|----------------------|------------------|--|-------------------------|----------------------|------------------|
| Business Rates<br>£'000                                | Council Tax<br>£'000 | Total<br>£'000   | Collection Fund  | Business Rates<br>£'000 | Council Tax<br>£'000 | Total<br>£'000   |
| <b>INCOME:</b>   |                      |                  |  |                         |                      |                  |
|  | (117,530)            | (117,530)        | Council Tax Receivable   |                         | (125,308)            | (125,308)        |
| (12,700)   |                      | (12,700)         | Business Rates Receivable  | (29,417)                |                      | (29,417)         |
| (4)  | 0                    | (4)              | Transitional Protection Payments Receivable                                  | 0                       | 0                    | 0                |
|  | (832)                | (832)            | Reconciliation adjustments   |                         | 0                    | 0                |
| <b>(12,704)</b>  | <b>(118,362)</b>     | <b>(131,066)</b> | <b>Total amounts to be credited</b>  | <b>(29,417)</b>         | <b>(125,308)</b>     | <b>(154,725)</b> |
| <b>EXPENDITURE:</b>                                    |                      |                  |  |                         |                      |                  |
| <b>Apportionment of Previous Year Surplus/Deficit:</b> |                      |                  |  |                         |                      |                  |
| (156)  |                      | (156)            | Central Government   | (10,558)                |                      | (10,558)         |
| 513  | 758                  | 1,271            | West Sussex County Council   | (2,549)                 | (1,127)              | (3,676)          |
| (125)  | 140                  | 15               | Arun District Council  | (8,447)                 | (207)                | (8,654)          |
| 0  | 104                  | 104              | Sussex Police and Crime Commissioner   | 0                       | (157)                | (157)            |
| <b>Precepts, demands and shares:</b>                   |                      |                  |  |                         |                      |                  |
| 17,544   |                      | 17,544           | Central Government   | 18,941                  |                      | 18,941           |
| 3,509  | 89,553               | 93,062           | West Sussex County Council   | 3,788                   | 94,603               | 98,391           |
| 14,035   | 16,444               | 30,479           | Arun District Council  | 15,152                  | 16,871               | 32,023           |
| 0  | 12,443               | 12,443           | Sussex Police and Crime Commissioner   | 0                       | 13,459               | 13,459           |
| <b>Charges to Collection Fund:</b>                     |                      |                  |  |                         |                      |                  |
| (676)  | 257                  | (419)            | Write-offs of uncollectable amounts  | 261                     | 415                  | 676              |
| 801  | 1,249                | 2,050            | Increase/(decrease) in allowance for impairment                              | 403                     | 97                   | 500              |
| (892)  |                      | (892)            | Increase/(decrease) in allowance for appeals                                 | (73)                    |                      | (73)             |
| 182  |                      | 182              | Charge to General Fund for allowable collection costs for non-domestic rates | 180                     |                      | 180              |
| <b>34,735</b>  | <b>120,949</b>       | <b>155,683</b>   | <b>Total amounts to be debited</b>   | <b>17,098</b>           | <b>123,954</b>       | <b>141,052</b>   |
| <b>22,031</b>  | <b>2,587</b>         | <b>24,617</b>    | <b>(Surplus)/Deficit arising during the year</b>                             | <b>(12,319)</b>         | <b>(1,354)</b>       | <b>(13,673)</b>  |
| <b>642</b>   | <b>239</b>           | <b>881</b>       | <b>(Surplus)/Deficit b/f at 1 April 2021</b>                                 | <b>22,673</b>           | <b>2,826</b>         | <b>25,498</b>    |
| <b>22,673</b>  | <b>2,826</b>         | <b>25,498</b>    | <b>(Surplus)/Deficit c/f at 31 March 2022</b>                                | <b>10,354</b>           | <b>1,472</b>         | <b>11,826</b>    |

## Notes to the Collection Fund

### 1. Council Tax Base

|  | 2020/21       | 2021/22       |
|--|---------------|---------------|
| Equivalent Valuation Band D properties in: |               |               |
| Valuation Band A                           | 3,251         | 3,262         |
| Valuation Band B                           | 7,119         | 7,119         |
| Valuation Band C                           | 14,718        | 14,807        |
| Valuation Band D                           | 13,580        | 13,680        |
| Valuation Band E                           | 11,418        | 11,507        |
| Valuation Band F                           | 7,888         | 7,954         |
| Valuation Band G                           | 4,161         | 4,181         |
| Valuation Band H                           | 495           | 495           |
| <b>Total Band D Equivalents</b>            | <b>62,635</b> | <b>63,005</b> |
| Allowance for non-collection 0.6%          | (391)         | (377)         |
| <b>Tax Base for year</b>                   | <b>62,244</b> | <b>62,628</b> |

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

|                  | 2020/21   | 2021/22  |
|------------------|-----------|----------|
| Valuation Band A | £1,268.56 | 1,329.91 |
| Valuation Band B | £1,479.99 | 1,551.56 |
| Valuation Band C | £1,691.42 | 1,771.21 |
| Valuation Band D | £1,902.84 | 1,994.86 |
| Valuation Band E | £2,325.69 | 2,438.16 |
| Valuation Band F | £2,748.55 | 2,881.46 |
| Valuation Band G | £3,171.40 | 3,324.77 |
| Valuation Band H | £3,805.68 | 3,989.72 |

### 3. General Statistics

|   | 2020/21 | 2021/22 |
|---|---------|---------|
| Rateable value of non-domestic properties at 31 March | £97.6m  | £97.7m  |
| Number of non-domestic properties at 31 March         | 4,939   | 4,951   |
| Non-domestic rating multiplier: small businesses      | 0.499   | 0.499   |
| Non-domestic rating multiplier: other                 | 0.512   | 0.512   |
| Average Council Tax for a Band D property             | £1,903  | £1,995  |

## 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.



This page is intentionally left blank

## Arun District Council

|   |  |
|---|--|
| <b>REPORT TO:</b>   | <b>Audit &amp; Governance Committee 28 February 2023</b> |
| <b>SUBJECT:</b>   | <b>Final Annual Governance Statement 2021/22</b>         |
| <b>LEAD OFFICER:</b>  | <b>Stephen Pearse, Internal Audit Manager</b>            |
| <b>LEAD MEMBER:</b>   | Councillor Mike Clayden                                  |
| <b>WARDS:</b>   | <b>All</b>   |
| <b>CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:</b>  |  |
| The Council is required by the Accounts & Audit Regulations 2015 to produce and approve an Annual Governance Statement, to accompany the annual accounting statements.  |  |
| <b>DIRECTORATE POLICY CONTEXT:</b>  |  |
| The Council's draft Accounts and the draft Annual Governance Statement were published on the Council's website and provided to the external auditors in 2022. As the audit of the Accounts was subject to delay, the Audit & Governance Committee noted the content of the draft document pending approval of the final version once the audit of the Accounts was completed. |  |
| <b>FINANCIAL SUMMARY:</b>   |  |
| n/a   |  |

### For general release

#### 1. PURPOSE OF REPORT

- 1.1. To present the final Annual Governance Statement for 2021/22 for the Committee's approval

#### 2. RECOMMENDATIONS

- 1.2. Members of the Audit & Governance Committee are requested to approve the final version of the Council's Annual Governance Statement for 2021/22

#### 2. EXECUTIVE SUMMARY

- 2.1. This report presents the final Annual Governance Statement for 2021/22 which is required to accompany the audited Annual Accounts. The draft Annual Governance Statement was noted by the Committee at its July 2022 meeting

#### 3. DETAIL

- 3.1. 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 document is backward-looking, covering the period covered by the Accounts.

- 3.2. The draft Annual Governance Statement was presented to the Committee and noted at its July 2022 meeting and provided to the Council's external auditors. It was also published alongside the draft Accounts on the Council's website. The final version is presented for approval by the Committee at this meeting which includes consideration of audited Accounts as an agenda item.
- 3.3. The document is signed by the 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.

#### **4. CONSULTATION**

- 4.1. As noted above, the Audit & Governance Committee was considered and noted the draft version in July 2022.

#### **5. OPTIONS / ALTERNATIVES CONSIDERED**

- 5.1. The Committee could request further information or changes to the final document prior to its approval and publication.

#### **6. COMMENTS BY THE INTERIM GROUP HEAD OF FINANCE AND SECTION 151 OFFICER**

- 6.1. The Annual Governance Statement is a statutory document, which explains the processes and procedures in place to enable the Council to carry out its functions effectively. There are no direct financial implications.

#### **7. RISK ASSESSMENT CONSIDERATIONS**

- 7.1. The Annual Governance Statement is a mandatory document and non-publication could lead to regulatory or reputational issues. As the audit of the Council's Accounts was subject to delay, an appropriate explanatory notice (as required by the Accounts and Audit Regulations 2015) was posted on the Council's website with the draft Accounts and draft Annual Governance Statement.

#### **8. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER**

- 8.1. The Accounts and Audit Regulations 2015 require the Council to approve an Annual Governance Statement each year. This function is within the terms of reference of the Audit & Governance Committee.

#### **9. HUMAN RESOURCES IMPACT**

- 9.1. There are no impacts.

## **10. HEALTH & SAFETY IMPACT**

10.1. There are no impacts.

## **11. PROPERTY & ESTATES IMPACT**

11.1. There are no impacts.

## **12. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE**

12.1. There are no impacts.

## **13. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE**

13.1. There are no impacts.

## **14. CRIME AND DISORDER REDUCTION IMPACT**

14.1. There are no impacts.

## **15. HUMAN RIGHTS IMPACT**

15.1. There are no impacts.

## **16. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS**

16.1. There are no specific FOI or Data Protection implications.

---

### **CONTACT OFFICER:**

Name: Stephen Pearse  
Job Title: Internal Audit Manager  
Contact Number: 01903 737561

### **BACKGROUND DOCUMENTS:**

[Draft Annual Governance Statement - A&GC 28 July 2022](#)

This page is intentionally left blank



# Annual Governance Statement 2021/22

## **Scope of Responsibility**

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. There is also a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of efficiency, effectiveness and economy.

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

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

- Regulation 6(1), which requires that the Council “must each financial year:-
  - (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
  - (b) prepare an annual governance statement”
- Regulation 6(4), which requires the annual governance statement to be “approved in advance of the relevant authority approving the statement of accounts” and “to be prepared in accordance with proper practices in relation to accounts”, to accompany the Council’s Annual Accounts.

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

In 2020, the dates for preparation of the draft and final accounts were relaxed temporarily by the Government in light of the Covid 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 March 2022, the Council’s external auditors have again 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 September-December meaning the audited Accounts will not be presented to the Committee until early 2023. As in 2021, an appropriate statement will be 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 2021/22 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 reviewed and updated in 2021 as part of the change to the committee system of governance at the Council. 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 2022). 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.

From May 2021 the Council moved to a 'committee model' of operation under the provisions of the Local Government Act 2000. There are currently six 'service' committees and four regulatory committees reporting to Full Council, with their roles and responsibilities contained in the revised Constitution, although the number of committees is subject to review in 2022. (A diagrammatic representation of how the various stakeholders in the new governance process interact is included as Appendix 1 to this document). In 2020/21 the political balance of the Council changed and at the annual meeting on 19 May 2021 this resulted in a mid-term change to the political control of the Council.

The Council's Constitution provides clear guidance on the roles and responsibilities of the Leader, Committees, 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.

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 and the Committee Chairs and their deputies receive briefings from Senior Officers on a regular basis, including financial, legal and technical advice.

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 Feedback and Complaints Policy is in place (updated in 2022) 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 performance monitored through Corporate Plan indicators.

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 and periodic telephone conversations and as suggested by the Regulator, the Council has commissioned a compliance health check and the results will be provided to the Regulator.

## **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. Under the committee system, other decisions will be taken by Full Council or delegated to an appropriate Committee or to officers. There are no longer be 'key decisions' contained in a Forward Plan or any decisions made by individual (Cabinet) Members. Reports presented to Committees and Full Council are generally reviewed on a risk / professional basis by Legal Services and Finance before being presented and appropriate Officers attend Committees in order to answer specific queries raised by Members.

The Council aims to ensure that clear channels of communication are established with all areas of the community and other stakeholders, ensuring accountability and encouraging open communication. The new Council believes that the 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. From 2020, 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 was redeveloped in 2021 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 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. 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 Committee meetings, under the Rules of Procedure contained in the Constitution.

From March 2020, the Covid 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 at May 2021, the Government did not renew the change to the Regulations which 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 could be held until the Government confirmed that social distancing would be relaxed and physical, public meetings could safely take place. Having taken legal advice, the Council agreed that there remained considerable health and safety issues and that it would continue to hold virtual meetings until such time as the Government confirmed the relaxation of social distancing. For this period, Council

and committee decisions were advisory with the Chief Executive executing the decisions under his emergency powers, as contained in the Council's Constitution. This arrangement ended in July 2021 when public meetings could again safely be held (although initially still subject to Covid safety measures). Through the Covid crisis all Full Council and Committee meetings have been live streamed and recorded to allow public viewing and this arrangement is currently continuing.

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 ongoing governance arrangements for the Council.

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. Through the pandemic period the Council extended live webcasting to include all Full Council and Committee meetings and this arrangement is continuing.

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 Chair of the Housing & Wellbeing Committee is the Council's representative on the Sussex Police & Crime Panel. They also consider the provision of health services and wellbeing throughout the District.

The new priority themes contained in the Council's Vision 2022-2026 have been drawn up with the involvement of a wide range of consultees including staff, Members and the general public.

The Council engages in public consultation exercises to inform the decision-making process, with several undertaken recently in relation to current and future developments e.g. Vision 2022-2026, Bognor Regis Sunken Gardens plans, car parking charges and Resident Engagement Strategy.

Arun gathers views from its residents in several 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 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.

The Council continued to progress against its three priority themes from 'Your Council 2013-2017' (which had been extended for the period 2018-2022), with monitoring / reporting against agreed Corporate Plan and Service Delivery Plan indicators to support achievement.

In 2021/22 the Council developed and agreed its Vision 2022-2026 which contains four new themes:-

- Improving the wellbeing of Arun
- Delivering the right homes in the right places
- Supporting our environment to support us
- Fulfilling Arun's economic potential

Linked to these are key performance indicators / outcomes. In addition, the Council has agreed a set of revised Corporate Plan indicators from April 2022 to support achievement of these themes. Progress against these will be reported to Members and published by the Council.

Within these 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. However, sound financial management and Government support received has resulted in a positive budget variation for 2021/22. While the Council currently has significant reserves to ensure financial resilience, balances are anticipated to reduce significantly in the medium term and the 2022/23 Budget required a small transfer from the Funding Resilience Reserve, in addition to £1.5M funding of general fund capital expenditure from capital receipts (previously revenue finance). The Council will continue to consider ways to increase income and / or reduce costs to minimise the anticipated budget deficit in future years. This will commence with a resource based (Zero Based Budgeting) budgeting exercise in 2022/23.

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 was impacted by Covid-related priority work in 2020-21, but opportunities for redevelopment and/or disposal of several assets are being progressed in 2022.

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 this required additional funds to be provided again in 2021/22).

The Council is committed to working with others to bring about real change for the benefit of the community. It already has several 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 other West Sussex local authorities and 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. Members of the Senior Management Team hold regular meetings with key business / third sector partners such as the University of Chichester, Butlins, Rolls Royce, Aldingbourne Trust, Age UK, etc. 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 continues to work with, and provide support to, Town and Parish Councils wishing to develop a Neighbourhood Development Plan and 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, although a review of the Local Plan was agreed by Full Council as part of its altered priorities and some work has been performed on updates to the evidence base, the 'Visions and Objectives' for this have not yet been agreed and the Council has taken the decision to pause the review until details of the Government's new plan making system are agreed

- Customer Services Strategy 2021-26
- Housing & Homelessness Strategy (to be revised in 2022/23)
- 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' was 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 with funding allocated in 2022/23
- however, the Covid crisis particularly affected leisure provision with facilities required to close for several months and additional safety measures required when open. This impacted the availability and capacity of facilities for periods of time in 2021/22
- rising inflation, increased utility costs and workforce shortages will be a challenge in 2022/23
- Bognor Regis regeneration:-
  - the improvement of Place St Maur has progressed with a large part of the funding for the project obtained from the Local Enterprise Partnership (due for completion in 2022)
  - options for the 'Sunken Gardens' have also progressed and following public consultation works are to be undertaken in 2022
  - the Council continues to consider the options for future regeneration of the wider Regis Centre and Hothampton sites
  - 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)
- 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 was secured to deliver the Littlehampton town centre public realm improvements which are progressing and due to complete by the end of the 2022. Additional funding of £1.25M has been obtained from West Sussex County Council allowing a further phase of the scheme to progress in 2022-23
- 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 resulting bid by the Council was successful and £19.4M will be provided to progress projects for improvements to the Alexandra Theatre in Bognor Regis and the Littlehampton seafront and riverside by March 2024
- the Council has also been successful in a bid for funding to contribute to providing six Changing Places Toilets in the District
- 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 2022/23 to 2026/27 – 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. Funding has also been secured for Youth Works, a service to help those aged 18-24 overcome barriers and find work or training, as well as the One to One Retail Support project providing expertise for independent retailers. 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 was delayed by the Covid crisis and has now started in Bognor Regis via a partnership with the Bognor Regis BID. The Council has also received funds from the Economic Recovery Fund, held by WSCC, to assist in town centre economic recovery projects.

Through the Covid period to March 2022, the Council has been instrumental in the delivery to eligible local businesses of over £50M of mandatory and discretionary grants allocated by the Government and this funding also allowed several further initiatives to provide wider business support in the District. It has also assessed and distributed Test & Trace Self-Isolation Payments to eligible residents and Government funding has also been received and used during the crisis for other designated measures in support of the community (e.g. Arun Covid Community Champions project, Protect & Vaccinate Grant).

The Council has a key role in several 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 Local Community Network
  - in 2021/22 the Arun Wellbeing and Health Partnership was replaced by the Arun Local Community Network in preparation for the introduction of the Integrated Care System
  - the Arun Wellbeing service received partnership funding for five years from April 2022 and has a dedicated website offering practical advice and events to assist in the improvement of the health of residents and to reduce health inequalities

It also participates in national and county-wide partnership initiatives, including:-

- Coast To Capital Local Enterprise Partnership
- 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



- WSCC Joint Climate Change Board
- Arun Local Community Network.

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. Since 2020, in accordance with amended regulations, the Council has approved and published its annual Infrastructure Funding Statement and in 2022 has also agreed an Arun Infrastructure Investment Plan for 2022-24 (prioritising the use of Community Infrastructure Levy funds received).

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 several 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 crisis in 2020-22, 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) continues 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 undertook a 12-month food waste collection service trial with positive results reported to Members.

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 Council's strategic priorities 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. In 2021/22 the Council agreed its:-

- Carbon Reduction Strategy
- Climate Action & Biodiversity Work Plan 2022-23
- Greenspace Tree Planting Strategy 2021-2031.

**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 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 Code has been undertaken (and updated in 2022) to confirm that the Council is compliant and 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 support of the new Council Vision for 2022-2026, vision indicators and outcomes and revised Corporate Plan indicators have been agreed and these will be monitored from April 2022 and performance reported to Members.

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 and relevant service committees (and published as agenda items on the Council's website).

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 the Leader of the main opposition group. In October 2021 the existing Chief Executive left the Council, with an interim appointment made to March 2022 and subsequently appointed to the post permanently from April 2022

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 were put in place while the recruitment of a replacement progressed. A permanent appointment was made from July 2021 but left again in January 2022. Interim arrangements were again put in place with a new permanent appointee now due in 2022.

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 and has now agreed its Vision 2022-2026 covering the next 5 years.

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 while also seeking additional income sources and appropriate potential income generating opportunities.

From March 2020, the UK progressed its response at a national level to the global Covid 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 2020-21 and into 2022. The Council has generally been successful in maintaining its service provision and minimising the impact to residents despite most 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 while the national Covid health and safety restrictions were in place.

Throughout the period of the crisis (which extended 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 provided some support to residents facing significant hardships for an extended period. Through the crisis Members were kept updated on the Council's activities and the financial impact through regular reports provided by the CEO and officers.

As already noted, the Council required a small transfer from reserves for its Budget for 2022/23 (which was agreed by Full Council in February 2022) and the predicted finances for future years has been reflected in the Financial Prospects 2021/22-2025/26 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, together with consideration of additional income streams. A report on The Council's Future Financial Issues was provided to Members in 2021 and the Council will also consider its future operating model. With the appointment of the new CEO on a permanent basis from April 2022, these initiatives will now be driven alongside the resource and budgetary requirements to progress the new Council Vision 2022-26.

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 was 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 was mainly focussed on working remotely and the wellbeing of staff during the pandemic period and more in-depth management training will be progressed now that 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. In 2022, the new Chief Executive has commissioned a review of the Council's risk appetite, strategy and reporting to ensure that it remains fit for purpose.

The Council's Strategic Risk Register (SRR) is periodically reviewed by the Governance & Risk Group and CMT. 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.

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. However, cybersecurity events affecting other authorities and the increased risk of external attacks with the global political and economic situation in 2022 means the Council must remain vigilant and continue to review its security arrangements.

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). The Housing Revenue Account is ring-fenced

(and separate from the Council's General Fund) and a HRA Business Plan has been agreed for the period 2017-2027 and is reviewed annually by external consultants, 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 Finance & Risk Manager 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**

With the implementation of the committee system of governance from May 2021 there is no longer 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.

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.

To March 2022, the Council operated an in-house Internal Audit section, which undertook 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 was prepared, and audit work performed, on a risk-based approach and approved by the Audit & Governance Committee with findings and progress reports periodically presented to the committee.

From April 2022, the Council has agreed to join the Southern Internal Audit Partnership (SIAP) for the future provision of internal audit services to the Council. This arrangement will provide greater resilience in respect of resource than previously and access to specialist audit skills when required. Plans and reports will be provided to the Audit & Governance Committee as before and the arrangements will continue to

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 the external assurance reports and makes recommendations to Full Council where appropriate.

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). In 2021, the Council has again opted-in to the sector led body approach for procurement of external audit services for the next 5-year period (from 2023/24).

The Council operates a Publication Scheme, as required by the Freedom of Information Act 2000, and 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 8<sup>th</sup> 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 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 Corporate Management Team, 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 2022/23
- 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 2021/22 (to be presented to the Audit & Governance Committee on 28<sup>th</sup> July 2022 in conjunction with this document), which contains an assurance statement regarding internal control. However, it should be noted that for 2021/22 this again 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 Corporate Management Team 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 several 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 Corporate Management Team, with action plans, timescales and a responsible Officer agreed. Progress to address these issues will also be reported to the Audit & Governance Committee.

**Annual Governance Statement 2021/22**

**Governance Risks Identified:-**

| <u>Issue</u> | <u>Mitigating Action(s)</u> | <u>Responsible Officer</u> | <u>Target Date</u> |
|--------------|-----------------------------|----------------------------|--------------------|
|--------------|-----------------------------|----------------------------|--------------------|

**Issues identified in past Annual Governance Statements:-**

|  |   |   |                            |
|--|---|---|----------------------------|
| <p>As at July 2021, the Council's external auditors advised that a national resourcing issue meant that they would not be able to complete all their audits by 30 September and scheduled audit work for the Council in November. This was note completed until early in 2022 and this meant the audited Accounts were not presented to the Audit &amp; Governance Committee until February 2022</p> <p>As at March 2022 Ernst &amp; Young have advised that the resourcing issues continue and that they are scheduling their work on the 2021/22 Accounts for September-December 2022, and this means the audited Accounts will not be presented to the committee until early 2023</p> | <p>The issue was reported to the Chief Executive and Chair / Vice-Chair of the Audit &amp; Governance Committee in advance of Ernst &amp; Young presenting their Audit Planning Report to the July meeting of the committee</p> <p>A letter expressing the Council's dissatisfaction with the delay was sent to both E&amp;Y and PSAA Ltd. And following their advice an explanatory note explaining the reason for the delay was posted with the draft Accounts on the Council's website</p> <p>The Interim Group Head of Corporate Support will continue to liaise with the external auditors to ensure that the audited Accounts are presented to the Committee at the earliest opportunity and an appropriate explanatory note will again be posted with the draft Accounts</p>                 | <p>Interim Group Head of Corporate Support</p>                                | <p>Feb 2023</p>            |
| <p>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</p>   | <p>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 2021</p> <p>Decisions will be taken by Full Council or delegated to committees or officers. Officers will be required to plan effectively to ensure that items are presented for decisions in line with the new committee structure / calendar</p> <p>As at April 2022, the Constitution has been reviewed by the Interim Group Head of Law &amp; Governance in light of the experiences of operating the committee system since May 2021. Potential changes have</p> | <p>Interim Group Head of Law &amp; Governance / Corporate Management Team</p> | <p>July 2022 / Ongoing</p> |

**Governance Risks Identified:-**

| <u>Issue</u>  | <u>Mitigating Action(s)</u>   | <u>Responsible Officer</u>       | <u>Target Date</u> |
|---|---|----------------------------------|--------------------|
|   | <p>been considered by the Constitution Working Party and recommendations passed to Full Council. Future consideration is also being given to the number of service committees required and the frequency of committee and Full Council meetings which will be subject to further review in 2022</p>   |                                  |                    |
| <p>From March 2020 the nation became affected by the global Covid crisis.</p> <p>This 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</p> <p>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</p> | <p>The Council was generally successful in maintaining its service provision and minimising the impact to residents despite most of its staff working away from Council offices</p> <p>The Council monitored central Government support initiatives and guidance and engaged with its key partners to best provide essential services. Through 2020-22 it distributed considerable sums of Government funding to support local businesses and provided support and guidance to local residents</p> <p>As at early 2022, the Government roadmap towards relaxation of restrictions, including re-opening businesses, has progressed nationally and most restrictions have now been removed. However, in 2022 there is an ongoing impact on the national economy of Covid and other factors (e.g. increasing fuel process). The Council will therefore continue to consider its future finances and ways of working to best deliver services to residents</p> | <p>Corporate Management Team</p> | <p>Ongoing</p>     |
| <p>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 &amp; 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</p>   | <p>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&amp;S aspects, with data being collected / analysed and contractors being engaged to ensure that risks are assessed and appropriate action is taken to</p>   | <p>Director of Services</p>      | <p>May 2022</p>    |

**Governance Risks Identified:-**

| <u>Issue</u>   | <u>Mitigating Action(s)</u>   | <u>Responsible Officer</u>   | <u>Target Date</u> |
|--|---|------------------------------|--------------------|
| published by the RSH and advised by the Council to tenants and Members   | 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.<br><br>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 April / May 2022 and will be provided to the Regulator |                              |                    |
| The Council's Equality & Diversity Policy still requires review and update   | Mandatory E&D training was provided to all staff in early 2022.<br><br>The Council's Equality, Diversity and Inclusion Policy was reviewed in 2022 and its adoption was approved at the Policy & Finance Committee on 6 September 2022  | Group Head of Policy         | Mid-2022           |
| 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 cover the whole of the revised structure of the Council | The new Chief Executive has commissioned a review of the Council's risk appetite, risk management strategy and risk registers. This is also likely to include staff training on risk to better embed risk management into the Council's operations and to link to the achievement of the Council's future priorities<br><br>Once a revised strategy and risk registers have been developed appropriate reports will be provided to the A&GC   | Finance & Risk Manager / CMT | Nov 2022           |
| <b>Issues identified in the 2020/21 Annual Governance Statement that have now been resolved:-</b>  |   |                              |                    |
| 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   | 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   | Chief Executive              | July 2021          |

**Governance Risks Identified:-**

| <u>Issue</u>  | <u>Mitigating Action(s)</u>  | <u>Responsible Officer</u>  | <u>Target Date</u> |
|---|--|---|--------------------|
| <p>relaxed, the Council does not have appropriate facilities to enable it to hold physical meetings in a Covid-secure environment</p>   | <p>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)<br/>From late July 2021 the government moved to step 4 of the Covid 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)</p>  |   |                    |
| <p>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</p>  | <p>Council management and officers will liaise with the new Council leadership in order to agree and progress current / new priorities for the Council</p>   | <p>Corporate Management Team</p>  | <p>Ongoing</p>     |
| <p>Partnership working and other innovative practices have been advised as increasingly important for the future, particularly as central government funding is likely to further decrease.<br/>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</p> | <p>An internal audit of partnerships, against best practice guidance (e.g. from CIPFA), was completed and reported to the Corporate Management Team and Audit &amp; Governance Committee in 2015.<br/>A plan of action was agreed at this time, but progress was delayed by Council restructures and other work priorities (including Covid in 2020-21).<br/>A register of 'partnerships' has now been agreed with the various service areas and this was reported to the Audit &amp; Governance Committee in November 2021. The Committee agreed that it should review the partnerships register on an annual basis and direct internal audit to carry out detailed reviews where necessary</p> | <p>Group Head of Policy</p>   | <p>Nov 2021</p>    |
| <p>In recent years, Zurich Risk Engineering (ZRE) the risk consultancy arm of the Council's (former) insurers assisted the Council in a review of its</p>   | <p>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.</p>  | <p>Emergency Management Team / Group Head of Neighbourhood Services</p> | <p>Ongoing</p>     |

**Governance Risks Identified:-**

| <u>Issue</u>                                    | <u>Mitigating Action(s)</u>  | <u>Responsible Officer</u> | <u>Target Date</u> |
|---|--|----------------------------|--------------------|
| <p>Corporate Business Continuity Plan (BCP)</p> | <p>However, this was superseded by the need for the Council to work in line with national guidelines in response to the Covid crisis. Since mid-March 2020, service business continuity plans have been put into operation, together with ICT infrastructure changes, with most Council staff now working from home and the situation continued to be monitored by the Council's Emergency Management Team.</p> <p>The Corporate Business Continuity Plan has been endorsed by CMT and a service review of BCP's progressed in 2021.</p> <p>The Corporate Management Team requires all service areas to have updated BCP's in light of increased threats (e.g. possible cybersecurity attacks) and this will be considered regularly at CMT meetings</p> |                            |                    |

**Certification**

Since March 2020, the global Covid 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  
Leader of Council

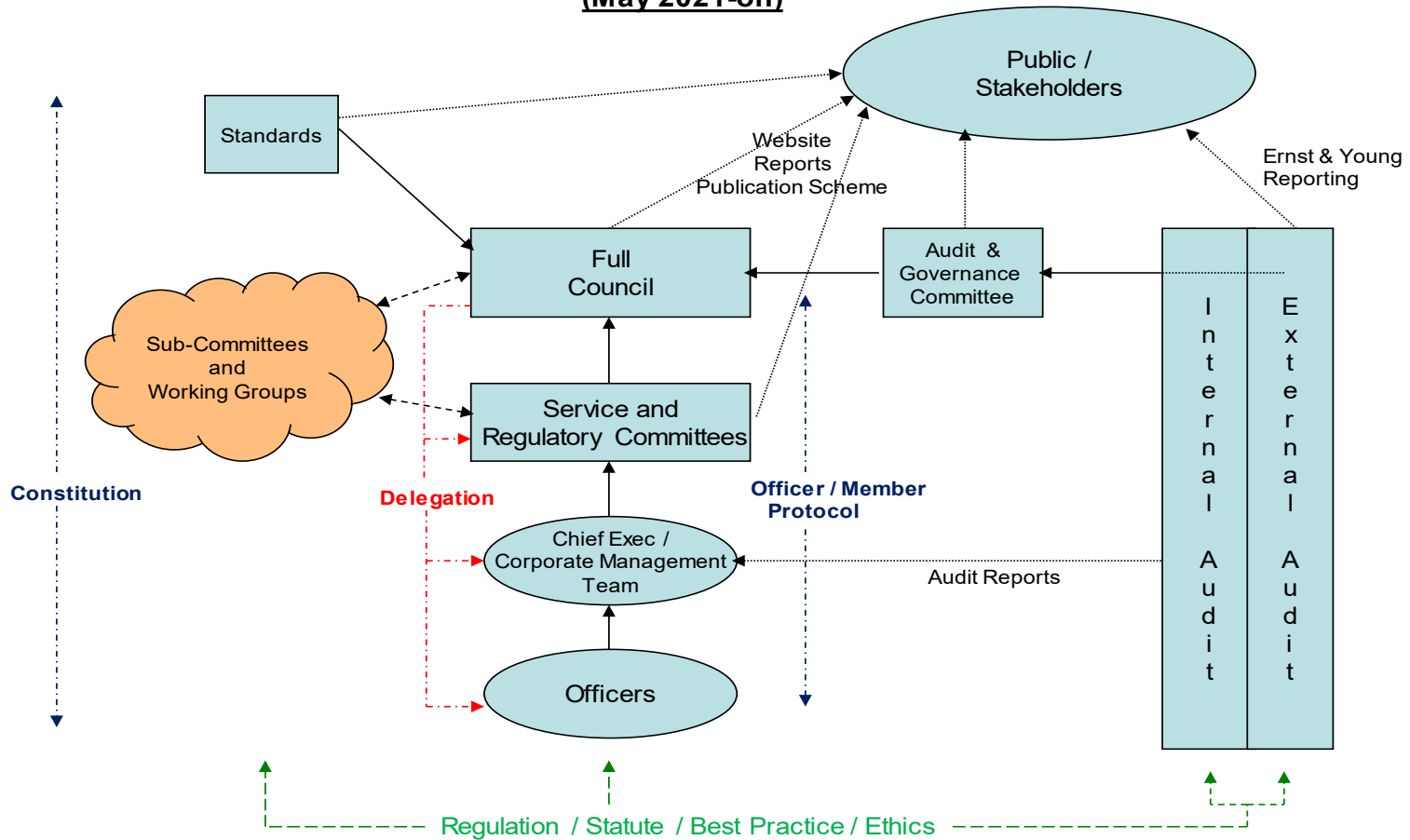


James Hassett  
Chief Executive

on behalf of the Members and Senior Officers of the Council

Dated:- 28 July 2022

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

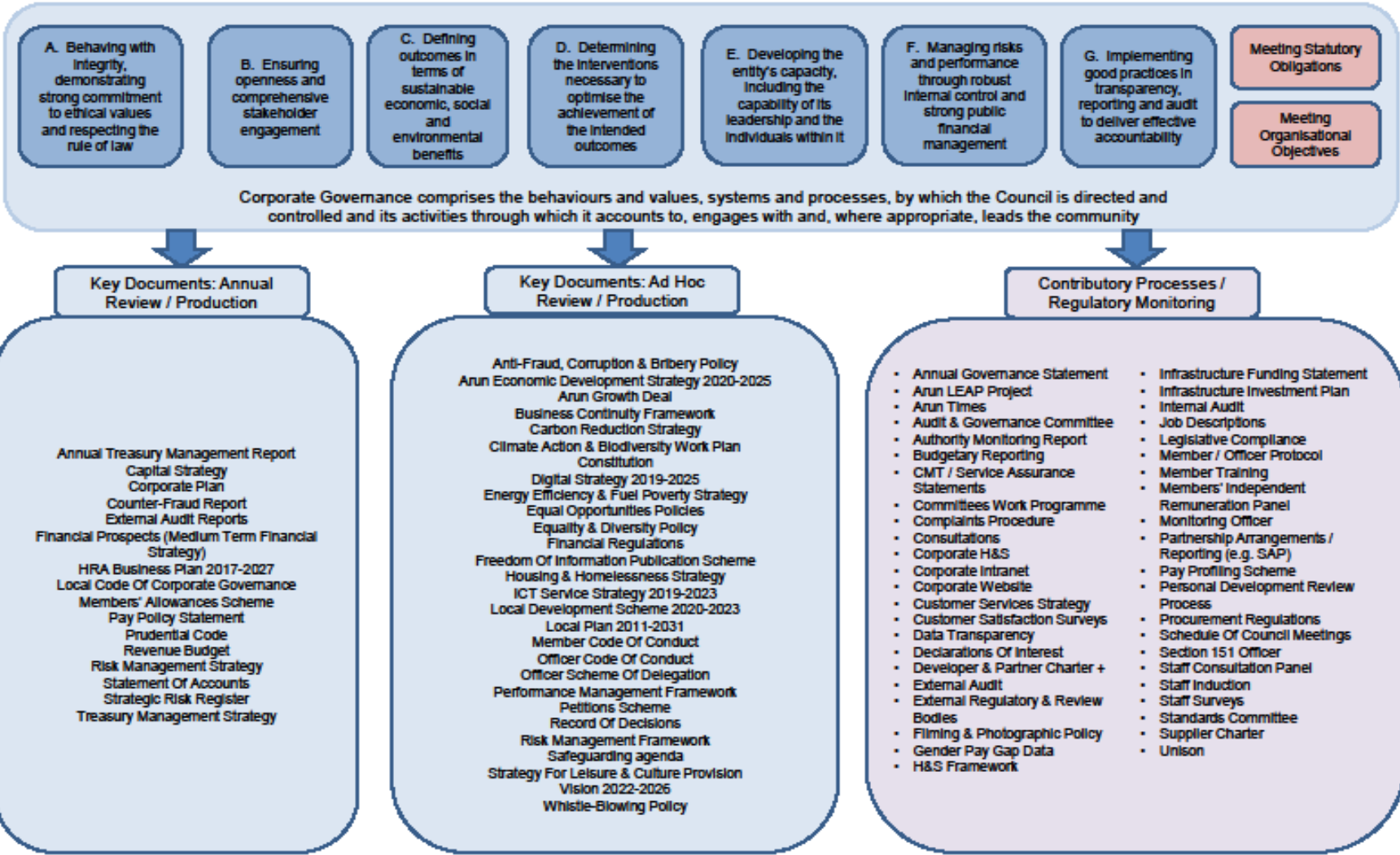






# Corporate Governance Framework

## Principles, Statutory Obligations and Organisational Objectives



Page 218

## Arun District Council

|   |  |
|---|--|
| <b>REPORT TO:</b>   | <b>Audit &amp; Governance Committee 28 February 2023</b>               |
| <b>SUBJECT:</b>   | <b>Update on Appointment of External Auditor</b>                       |
| <b>LEAD OFFICER:</b>  | <b>Carolyn Martlew, Interim Group Head of Finance and S151 Officer</b> |
| <b>LEAD MEMBER:</b>   | Councillor Mike Clayden  |
| <b>WARDS:</b>   | <b>All</b>   |
| <b>CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:</b>  |  |
| <p>The Local Audit &amp; Accountability Act 2014 requires that the accounts of the Council must be audited for each financial year by an auditor appointed in accordance with the Act.</p> <p>The auditor is required to provide an opinion as to whether the Council's Accounts give a true and fair view of the Council's financial position at the financial year end and have been prepared properly in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) / The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom.</p> |  |
| <b>DIRECTORATE POLICY CONTEXT:</b>  |  |
| <p>The Finance Department maintains appropriate financial records through the year and prepares the annual Accounts for external audit review and publication in accordance with specified and published timescales.</p>  |  |
| <b>FINANCIAL SUMMARY:</b>   |  |
| <p>The Council will be responsible for payment of approved fees to the external audit provider.</p>   |  |

### 1. PURPOSE OF REPORT

- 1.1. The purpose of the report is to update members of the Committee on the arrangements for the appointment of the external auditor

### 2. RECOMMENDATIONS

- 1.2. This report is an information paper and there are no recommendations for the Committee to consider

### 2. EXECUTIVE SUMMARY

- 2.1. This report sets out the current position regarding the appointment of an external auditor to the Council for the 5-year period from 2023/24 to 2027/28

### **3. DETAIL**

- 3.1. In order to meet legislative requirements, the Council is required to have its annual Accounts audited by an approved auditor.
- 3.2. At its meeting of 16 November 2021, the Audit & Governance Committee was presented with a report outlining the options available for the appointment of its future external auditor. The Committee agreed with the officers' recommended approach that the Council should again opt-in to the sector-led body approach to procure its external auditor from 1 April 2023. Under this approach, Public Sector Audit Appointments Ltd. (PSAA), set up by the Local Government Authority (LGA), is responsible for the identification of accountancy bodies which are appropriately licensed and able to be appointed as a registered local auditor under the Local Audit & Accountability Act 2014 and to engage in a procurement process with them to enable the allocation of an appropriate external auditor to each body opted-into the arrangement. This recommendation required Full Council approval which was provided at its meeting of 26 January 2022.
- 3.3. The PSAA procurement process has now been completed and following consultation they have advised the Council that its appointed auditors for the five years from 2023/24 to 2027/28 will again be Ernst & Young LLP.
- 3.4. 'Scale fees' for the audit work are negotiated by PSAA to obtain the lowest cost as part of the contract negotiations and will be advised to the Council in due course. However, there is the expectation that fees will increase under the new contract, as there is a limited number of currently-approved providers and there has been considerable market fragility in recent years. These issues have been raised by the Redmond 'Independent Review into the Oversight of Local Audit and the Transparency of Local Audit Financial Reporting' published in 2020 and the Government has considered the recommendations and will work with the relevant bodies to progress these.

### **4. CONSULTATION**

- 4.1. As noted above, the Audit & Governance Committee was consulted on the arrangements for the procurement of the external auditor.

### **5. OPTIONS / ALTERNATIVES CONSIDERED**

- 5.1. This is an information report to update Members and no options / alternatives are appropriate.

### **6. COMMENTS BY THE INTERIM GROUP HEAD OF FINANCE AND SECTION 151 OFFICER**

- 6.1. It is anticipated that increases in scale fees will be reflected in New Burdens grant funding.

## **7. RISK ASSESSMENT CONSIDERATIONS**

- 7.1. Risks to the Council in respect of the audit of its annual Accounts are lack of capacity of the appointed auditor to complete the required work, delays to the approval and publication of the Accounts and increases in audit fees. As the Council opted-in to the sector-led approach any concerns regarding external auditor practices, completion of the work, fees, etc. will be referred to PSAA for consideration and resolution.

## **8. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER**

- 8.1. Section 7 of the Local Audit & Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts.
- 8.2. Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council. This must be avoided by the Council.
- 8.3. Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

## **9. HUMAN RESOURCES IMPACT**

- 9.1. There are no impacts.

## **10. HEALTH & SAFETY IMPACT**

- 10.1. There are no impacts.

## **11. PROPERTY & ESTATES IMPACT**

- 11.1. There are no impacts.

## **12. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE**

- 12.1. There are no impacts.

## **13. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE**

- 13.1. There are no impacts.

#### **14. CRIME AND DISORDER REDUCTION IMPACT**

14.1. There are no impacts.

#### **15. HUMAN RIGHTS IMPACT**

15.1. There are no impacts.

#### **16. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS**

16.1. There are no specific FOI or Data Protection implications.

---

#### **CONTACT OFFICER:**

Name: Carolin Martlew  
Job Title: Interim Group Head of Finance & S151 Officer  
Contact Number: 01903 737568

#### **BACKGROUND DOCUMENTS:**

[Arrangements for Appointment of External Auditor - A&GC 16 Nov 2021](#)

[Arrangements for Appointment of External Auditor - Full Council 26 Jan 2022](#)

## Arun District Council

|   |   |
|---|---|
| <b>REPORT TO:</b>   | <b>Audit and Governance Committee – 28 February 2023</b>                      |
| <b>SUBJECT:</b>   | <b>Internal Audit Charter 2023/24</b>   |
| <b>LEAD OFFICER:</b>  | <b>Carolyn Martlew, Interim Group Head of Finance and Section 151 Officer</b> |
| <b>LEAD MEMBER:</b>   | Councillor Mike Clayden   |
| <b>WARDS:</b>   | <b>All</b>  |
| <b>CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:</b>  |   |
| The Council's budget promotes all of the Council's Corporate Priorities.  |   |
| <b>DIRECTORATE POLICY CONTEXT:</b>  |   |
| The Council's Internal Audit Service has an effect on all Directorates of the Council.  |   |
| <b>FINANCIAL SUMMARY:</b>   |   |
| There are no direct financial implications arising from the report. Provision of a sound Internal Audit Service should result in effective financial control and guard against theft and fraud. |   |

### 1. PURPOSE OF REPORT

- 1.1. The purpose of this report is to present the Internal Audit Charter 2023-24 to the Audit and Governance Committee in accordance with the requirements of the Public Sector Internal Audit Standards.

### 2. RECOMMENDATIONS

- 1.2. The Committee is requested to approve the Internal Audit Charter as attached.

### 2. EXECUTIVE SUMMARY

- 2.1. The Internal Audit Charter is a formal document that defines the internal audit activity's purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Public Sector Internal Audit Standards require the charter to be reviewed and approved annually.

### 3. DETAIL

- 3.1. The Accounts and Audit (England) Regulations 2015 state:

*'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management control and governance processes, taking into account public sector internal auditing standards or guidance'*

# Arun District Council

The Public Sector Internal Audit Standards (attribute standard 1000) requires that all internal audit activities maintain an 'internal audit charter'.

The Internal Audit Charter establishes internal audits position within the organisation including:

- Recognising the mandatory nature of the Public Sector Internal Audit Standards
- Defining the scope of internal audit responsibilities.
- Establishing the organisational independence of internal audit.
- Establishing accountability and reporting lines (functional and administrative).
- Arrangements that exist with regard anti-fraud and anti-corruption.
- Establishing internal audit rights of access.
- Defining the terms 'board' and 'senior management' for the purpose of internal audit.

In accordance with the Standards the internal audit charter should be reviewed annually (minimum) and approved by senior management and the Audit and Governance Committee.

## **4. CONSULTATION**

- 4.1. No consultation has been undertaken with external bodies.

## **5. OPTIONS / ALTERNATIVES CONSIDERED**

- 5.1. No other options are available.

## **6. COMMENTS BY THE GROUP HEAD OF CORPORATE SUPPORT/SECTION 151 OFFICER**

- 6.1. A fit for purpose, monitored Internal Audit system enhances financial control and reduces the risk of theft and fraud for the Council.

## **7. RISK ASSESSMENT CONSIDERATIONS**

- 7.1. In not maintaining an internal audit charter the Council would not be operating in accordance with the Accounts & Audit Regulations 2015.

## **8. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER**

- 8.1. A sound system of Internal Audit is one of the requirements of the Local Government Finance Act 1972.

# Arun District Council

## **9. HUMAN RESOURCES IMPACT**

9.1. There are no impacts.

## **10. HEALTH & SAFETY IMPACT**

10.1. There are no impacts.

## **11. PROPERTY & ESTATES IMPACT**

11.1. There are no impacts

## **12. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE**

12.1. There are no impacts.

## **13. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE**

13.1. There are no impacts.

## **14. CRIME AND DISORDER REDUCTION IMPACT**

14.1. There are no impacts.

## **15. HUMAN RIGHTS IMPACT**

15.1. There are no impacts.

## **16. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS**

16.1. There are no impacts.

---

### **CONTACT OFFICER:**

Name: Carolin Martlew

Job Title: Interim Group Head of Finance and Section 151 Officer

Contact Number: 01903 737558

### **BACKGROUND DOCUMENTS:**

None



This page is intentionally left blank



---

# **Southern Internal Audit Partnership**

Assurance through excellence  
and innovation

---

ARUN DISTRICT COUNCIL

Internal Audit Charter 2023/24

Prepared By: Iona Bond, Senior Audit and Counter Fraud Manager  
January 2023

## Internal Audit Charter – 2023/24

### Introduction

The Public Sector Internal Audit Standards (the Standards) provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes:

- the mission;
- core principles;
- definition of internal audit; and
- Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'.



The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority, and responsibility.

### Mission and Core Principles

The IPPF 'Mission' aims *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*

The 'Core Principles' underpin delivery of the IPPF mission:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.

## Authority

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which state that a relevant body must:

*‘undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.*

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards (updated 2017).

## Purpose

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The role of internal audit is best summarised through its definition within the Standards, as an:

*‘independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.*

## Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Arun District Council lies with the S151 Officer.

For the Council, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Head of Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the ‘Mission’, ‘Core Principles’, ‘Definition of Internal Auditing’, the ‘Code of Ethics’ and ‘the Standards’.

## Definitions

For the purposes of this charter the following definitions shall apply:

*The Board* – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Audit & Governance Committee.

*Senior Management* – those responsible for the leadership and direction of the Council. At the Council this shall mean the Corporate Management Team.

## Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the S151 Officer who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Monitoring Officer responsibility, legality and standards.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit & Governance Committee).

## Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The S151 Officer will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

*'Senior Management'* and *'the Board'* will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to *'senior management'* and *'the Board'*, for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to *'senior management'* and *'the Board'*.

If the Chief Internal Auditor, *'the Board'* or *'Senior Management'* consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the S151 Officer accordingly.

### **Independence and objectivity**

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to *'senior management'* and *'the Board'*;
- reports functionally to *'the Board'*;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team; and
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to *'Senior Management'* and *'the Board'*. The nature of the disclosure will depend upon the impairment.

## **Due professional care**

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity, but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the '*Mission*', *Core Principles*', *Definition of Internal Auditing*', the '*Code of Ethics*' and the '*Standards*' and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported in accordance with the Council's Anti-fraud and Corruption Policy.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

## **Access to relevant personnel and records**

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

## **Scope of Internal Audit activities**

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The Council assume a Key Stakeholder role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the SIAP. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls.

Managing the risk of fraud is the responsibility of line management and strategic responsibility for reactive and proactive fraud work sits with the S151 Officer who would ensure any suspected or detected fraud or corruption was investigated.

The Council participates in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other local authorities and external agencies to detect potential fraudulent activity.

The S151 Officer will commission resource to undertake any investigations required and notify SIAP of any suspected or detected fraud to inform their opinion.

SIAP will review the governance arrangements to prevent, detect and investigate fraud and irregularities on a cyclical basis.

## **Reporting**

### ***Chief Internal Auditor's Annual Report and Opinion***

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.



## Senior Management

As those responsible for the leadership and direction of the Council. It is imperative that the Senior Management Team are engaged in:

- approving the internal audit charter (minimum annually);
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

## The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement.

## Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to 'Senior Management' and 'the Board' for approval.

## Southern Internal Audit Partnership – Client Portfolio

|   |   |
|---|---|
| <b>Strategic Partners:</b>                  | Hampshire County Council  |
| <b>Key Stakeholder Partners:</b>            | West Sussex County Council<br>Havant Borough Council<br>East Hampshire District Council<br>Winchester City Council<br>New Forest District Council<br>Mole Valley District Council<br>Epsom & Ewell Borough Council<br>Reigate & Banstead Borough Council<br>Tandridge District Council<br>Crawley Borough Council<br>Arun District Council<br>Guildford Borough Council |
| <b>Blue light Key Stakeholder Partners:</b> | Hampshire & IoW Fire & Rescue Authority<br>West Sussex Fire Service<br>Office of the Hampshire Police & Crime Commissioner / Hampshire Constabulary<br>Office of the Sussex Police & Crime Commissioner / Sussex Police Force<br>Office of the Surrey Police & Crime Commissioner / Surrey Police Force   |
| <b>External clients:</b>                    | Waverley Borough Council<br>Hampshire Pension Fund<br>West Sussex Pension Fund<br>New Forest National Park Authority<br>Ringwood Town Council<br>Lymington & Pennington Town Council<br>Langstone Harbour Authority<br>Chichester Harbour Authority<br>Isle of Wight College  |

### Assurance Services

- **Risk based audit:** in which 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 managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- **Developing systems audit:** in which:
  - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
  - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- **Fraud and irregularity investigations:** Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the Council's Anti Fraud and Anti Corruption Strategy.
- **Advisory / Consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

## Arun District Council

|   |   |
|---|---|
| <b>REPORT TO:</b>   | <b>Audit and Governance Committee – 28 February 2023</b>                      |
| <b>SUBJECT:</b>   | <b>Internal Audit Annual Plan 2023-24</b>                                     |
| <b>LEAD OFFICER:</b>  | <b>Carolyn Martlew, Interim Group Head of Finance and Section 151 Officer</b> |
| <b>LEAD MEMBER:</b>   | Councillor Mike Clayden   |
| <b>WARDS:</b>   | <b>All</b>  |
| <b>CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:</b>  |   |
| The Council's budget promotes all of the Council's Corporate Priorities.  |   |
| <b>DIRECTORATE POLICY CONTEXT:</b>  |   |
| The Council's Internal Audit Service has an effect on all Directorates of the Council.  |   |
| <b>FINANCIAL SUMMARY:</b>   |   |
| There are no direct financial implications arising from the report. Provision of a sound Internal Audit Service should result in effective financial control and guard against theft and fraud. |   |

### 1. PURPOSE OF REPORT

- 1.1. The purpose of this paper is to present the Internal Audit Plan 2023-24 to the Audit and Governance Committee in accordance with the requirements of the Public Sector Internal Audit Standards.

### 2. RECOMMENDATIONS

- 1.2. The Committee is requested to approve the internal audit plan 2023-24 as attached.

### 2. EXECUTIVE SUMMARY

- 2.1. The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements. This report presents the plan for 2023/24 for approval by the Committee.

# Arun District Council

## **3. DETAIL**

- 3.1. The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:
- The framework of internal control, risk management and governance is appropriate and operating effectively; and
  - Risks to the achievement of the Council's objectives are identified, assessed and managed to a defined acceptable level.
- 3.2. Internal audit focus should remain proportionate and appropriately aligned to key areas of organisational risk.
- 3.3. All auditable areas of review remain within the audit universe and are subject to ongoing assessment. The audit plan will remain fluid to ensure internal audits ability to react to the changing needs of the Council.
- 3.4. Other reviews, based on criteria other than risk, may also be built into the work plan. These may include 'mandatory' audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate a contribution to the audit opinion on risk management, control and governance.

## **4. CONSULTATION**

- 4.1. No consultation has been undertaken with external bodies.

## **5. OPTIONS / ALTERNATIVES CONSIDERED**

- 5.1. No other options are available.

## **6. COMMENTS BY THE GROUP HEAD OF CORPORATE SUPPORT/SECTION 151 OFFICER**

- 6.1. A fit for purpose, monitored Internal Audit system enhances financial control and reduces the risk of theft and fraud for the Council.

## **7. RISK ASSESSMENT CONSIDERATIONS**

- 7.1. The Internal Audit Plan is not delivered inhibiting the production of an annual opinion in accordance with the Accounts & Audit Regulations 2015 and accompanying guidance (PSIAS).
- 7.2. The proposed Internal Audit Plan is approved by Corporate Management Team and Audit & Governance Committee (CMT). A regular progress report is presented to CMT and Audit & Governance Committee to monitor progress against the plan.

# Arun District Council

7.3. As detailed within the Internal Audit Charter the CIA will notify CMT and Audit & Governance Committee if in their opinion they are in any way inhibited in carrying out assurance work.

## **8. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER**

8.1. A sound system of Internal Audit is one of the requirements of the Local Government Finance Act 1972.

## **9. HUMAN RESOURCES IMPACT**

9.1. There are no impacts.

## **10. HEALTH & SAFETY IMPACT**

10.1. There are no impacts.

## **11. PROPERTY & ESTATES IMPACT**

11.1. There are no impacts

## **12. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE**

12.1. There are no impacts.

## **13. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE**

13.1. There are no impacts.

## **14. CRIME AND DISORDER REDUCTION IMPACT**

14.1. There are no impacts.

## **15. HUMAN RIGHTS IMPACT**

15.1. There are no impacts.

## **16. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS**

16.1. There are no impacts.

# Arun District Council

---

**CONTACT OFFICER:**

Name: Carolin Martlew

Job Title: Interim Group Head of Finance and Section 151 Officer

Contact Number: 01903 737558

**BACKGROUND DOCUMENTS:**

None



---

# **Southern Internal Audit Partnership**

Assurance through excellence  
and innovation

---

**ARUN DISTRICT COUNCIL**

**INTERNAL AUDIT PLAN 2023-24**

**Prepared by: Iona Bond, Senior Audit & Counter Fraud Manager**

**January 2023**



## Introduction

The role of internal audit is that of an:

*‘Independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.*

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.

The aim of internal audit’s work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the Council’s objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of Internal Audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant stakeholders to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Southern Internal Audit Partnership’s continued contact and liaison with those responsible for the governance of the Council.

## Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The strategic lead will be Iona Bond, Senior Audit and Counter Fraud Manager, supported by Jade Lakeland, Audit Manager.

## Conformance with Internal Auditing Standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2020 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

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.'*

## Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team which are required to be disclosed under internal auditing standards.

## Arun District Council – Our Vision: A Better Future 2022 - 2026



Arun District Council have developed the Council Vision for 2022 - 2026 which sets their priorities for the next 4 years. The vision was adopted by Full Council on 9 March 2022.

The four themes underpinning the vision are:

- Improving the wellbeing of Arun
- Delivering the right homes in the right places
- Supporting our environment to support us
- Fulfilling Arun's economic potential

## Council Risk

The corporate risks assessed by the Council are a key focus of our planning for the year to ensure it meets the organisation's assurance needs and contributes to the achievement of their objectives.

We will monitor the corporate risk register closely over the course of the year to ensure our plan remains agile to the rapidly changing landscape

| Risk Number | Title   | Risk Score |
|-------------|---|------------|
| 7           | Climate Change                                      | 16         |
| 1b          | Balance of Housing Revenue Account                  | 12         |
| 2           | Organisational Capacity to Deliver                  | 12         |
| 4           | ICT – Cyber Security                                | 12         |
| 10          | Planning Policy and Conservation – Development Plan | 12         |
| 11          | Major Projects                                      | 12         |
| 3           | Change Management and Transformation                | 9          |
| 5           | Corporate Business Continuity                       | 9          |
| 12          | Increased Homelessness                              | 9          |
| 1a          | Financial Resilience                                | 8          |
| 8           | Corporate Health and Safety                         | 8          |
| 9           | Equality and Diversity                              | 8          |
| 14          | Compliance Failings (Housing)                       | 8          |
| 4           | ICT – Physical or Technical Failure                 | 6          |
| 15          | Ineffective Complaints Management (Housing)         | 6          |
| 4           | ICT – Loss of Staff                                 | 4          |
| 6           | Information Governance and Data Protection          | 4          |
| 13          | Housing Management System Implementation            | 4          |

## Developing the Internal Audit Plan 2023/24

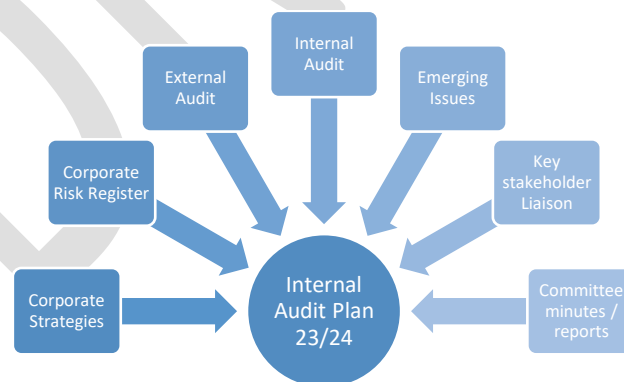
We have used various sources of information and discussed priorities for internal audit with the following groups:

- Directors of Services
- Chief Finance Officer (S151 Officer)
- Group Heads of Service
- Audit Committee
- Other key stakeholders as required

In accordance with the Public Sector Internal Audit Standards there is a requirement that Internal audit establish a risk-based audit plan to determine the resourcing of the internal audit service, consistent with the organisation's goals.

Based on conversations with key stakeholders, review of key corporate documents and our understanding of the organisation, the Southern Internal Audit Partnership have developed an audit plan for 2023-24.

The Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation. We will however continue to work closely with other assurance providers to ensure that duplication is minimised, and a suitable breadth of assurance is obtained.



## Internal Audit Plan 2023-24

| Audit Review                | Audit Sponsor | Indicative Scope  | Corporate Risks | Proposed Timing |
|-----------------------------|---------------|---|-----------------|-----------------|
| <b>Corporate</b>            |               |   |                 |                 |
| Transformation              | CX            | To provide assurance on the delivery and governance of transformational projects to deliver improved and more efficient services.   | CRR 3           | Q4              |
| <b>Governance</b>           |               |   |                 |                 |
| Fraud Framework             | CX            | Cyclical assurance over the governance arrangements to prevent, detect and investigate fraud and irregularities.  |                 | Q1              |
| Risk Management             | CX            | Assurance over the risk management framework including governance, transparency and maturity.   |                 | Q2              |
| Annual Governance Statement | CX            | Cyclical assurance over the governance arrangements to compile, contribute and deliver the AGS.   |                 | Q1              |
| Human Resources             | CX            | Assurance against key services / risk over a cyclical period, to include: <ul style="list-style-type: none"> <li>· Workforce Strategy / Development</li> <li>· Performance Management</li> <li>· Absence Management</li> <li>· Recruitment</li> <li>· Training &amp; Development</li> <li>· Use of Agency Staff</li> <li>· Use of Volunteers</li> </ul> For 2023-24 coverage will focus on Recruitment. | CRR 2           | Q3              |
| <b>IT</b>                   |               |   |                 |                 |

| Audit Review                          | Audit Sponsor                           | Indicative Scope  | Corporate Risks | Proposed Timing |
|---------------------------------------|---|---|-----------------|-----------------|
| Cyber Security                        | Director of Environment and Communities | An annual review to review on a cyclical basis key initiatives including: <ul style="list-style-type: none"> <li>cyber security policies, procedures</li> <li>training and awareness</li> <li>testing</li> <li>detection and recovery</li> <li>cyber risk assessments</li> <li>monitoring incidents</li> <li>key risk indicators and remediation</li> <li>assessing relationships with third parties and suppliers</li> </ul> | CRR 4           | Q2              |
| Disaster Recovery Planning            | Director of Environment and Communities | Assurance that the disaster recovery plan is comprehensive, appropriately documented, governed and tested.  | CRR 4           | Q3              |
| System Development and Implementation | Director of Environment and Communities | Assurance that the disaster recovery plan is comprehensive, appropriately documented, governed and tested.  |                 | Q1              |
|                                       | Director of Environment and Communities | Compliance to meet industry standards.  |                 | Q1 – Q4         |
| <b>Finance</b>                        |   |   |                 |                 |
| NNDR                                  | CX                                      | Cyclical review as a key financial system.  |                 | Q1              |
| Housing Rents                         | Director of Environment and Communities | Cyclical review as a key financial system.  |                 | Q3              |
| Financial Resilience                  | CX                                      | Assurance over the process and development of the medium-term financial strategy; budget setting / forecasting process; and in year   |                 | Q2              |

| Audit Review  | Audit Sponsor                           | Indicative Scope   | Corporate Risks | Proposed Timing |
|---|---|--|-----------------|-----------------|
| budget monitoring to ensure the Council achieves a balanced budget and financial stability. |   |  |                 |                 |
| <b>Improving the Wellbeing of Arun</b>  |   |  |                 |                 |
| Disabled facilities Grants  | Director of Growth                      | Assurance over the administration and awarding of grants in line with local / legislative requirements.  |                 | Q4              |
| Leisure   | Director of Environment and Communities | Effective contract management of leisure operators. Assurances that the Council are benefiting from the expected outcomes of arrangements in place.                                |                 | Q3              |
| <b>Delivering the Right Homes in the Right Places</b>                                       |   |  |                 |                 |
| Housing Voids   | Director of Environment and Communities | Assurance over the timely assessment, repair and reinstatement of void properties (to include overview of effective contract management arrangements and deliverables as relevant) |                 | Q1              |
| Responsive Maintenance  | Director of Environment and Communities | Assurance over the governance arrangements in place for the management and operation of the responsive repairs contract.   | CRR 14          | Q2 (or Q4)      |
| Replacement Housing IT System   | Director of Environment and Communities | Assurance over the project management, governance and delivery of the replacement Housing IT system.   | CRR 13          | Q1 -Q4          |
| Planning and Development Control  | Director of Growth                      | Assurance over the governance arrangements in place for the collection and distribution of CIL monies.   |                 | Q4              |
| <b>Supporting our Environment to Support Us</b>   |   |  |                 |                 |

| Audit Review                                | Audit Sponsor                           | Indicative Scope   | Corporate Risks | Proposed Timing |
|---|---|--|-----------------|-----------------|
| Parks and Green Spaces                      | Director of Environment and Communities | Assurance over the governance and contract management arrangements in place.   |                 | Q4              |
| Environmental Health and Protection         | Director of Growth                      | Assurance over regulatory activities including animal control, food safety, pollution control, contaminated land, enforcement.<br>For 2023/24 – coverage will focus on the areas of food safety, noise and enforcement.                |                 | Q2 & Q3         |
| <b>Fulfilling Arun's Economic Potential</b> |   |  |                 |                 |
| Economic Regeneration                       | Director of Growth                      | Assurance over the governance framework supporting the achievement of the Council's regeneration aspirations/plans.  | CRR 11          | Q2              |
| Corporate Property Portfolio                | Director of Growth                      | Assurance over the governance and management of reactive and proactive maintenance of corporate buildings including statutory checks (to include overview of effective contract management arrangements and deliverables as relevant). |                 | Q1              |
| <b>Miscellaneous</b>                        |   |  |                 |                 |
| Licensing                                   |   | Assurance over the governance and management of taxi licenses.   |                 | Q4              |
| <b>Other</b>                                |   |  |                 |                 |
| Management                                  |   |  |                 | Q1 – Q4         |
| Total Days                                  |   |  |                 | 365             |



DRAFT

## Arun District Council

|   |   |
|---|---|
| <b>REPORT TO:</b>   | <b>Audit and Governance Committee – 28 February 2023</b>                      |
| <b>SUBJECT:</b>   | <b>Internal Audit Progress January 2023</b>                                   |
| <b>LEAD OFFICER:</b>  | <b>Carolyn Martlew, Interim Group Head of Finance and Section 151 Officer</b> |
| <b>LEAD MEMBER:</b>   | Councillor Mike Clayden   |
| <b>WARDS:</b>   | <b>All</b>  |
| <b>CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:</b>  |   |
| The Council's budget promotes all of the Council's Corporate Priorities.  |   |
| <b>DIRECTORATE POLICY CONTEXT:</b>  |   |
| The Council's Internal Audit Service has an effect on all Directorates of the Council.  |   |
| <b>FINANCIAL SUMMARY:</b>   |   |
| There are no direct financial implications arising from the report. Provision of a sound Internal Audit Service should result in effective financial control and guard against theft and fraud. |   |

### 1. PURPOSE OF REPORT

- 1.1. The purpose of this report is to provide Members with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

### 2. RECOMMENDATIONS

- 1.2. The Committee is recommended to review and note the appended report from Southern Internal Audit Partnership (SIAP).

### 2. EXECUTIVE SUMMARY

- 2.1. The report outlines the progress of the Council's Internal Audit service against the approved Internal Audit Plan for 2022/23 from 1 April 2022.

### 3. DETAIL

- 3.1. The Committee approved its Internal Audit Plan for 2022/23 at its meeting of 28 July 2022.
- 3.2. Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:

# Arun District Council

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
  - undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.
- 3.3. In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Chief Internal Auditor is required to provide a written status report to the Regulation, Audit & Accounts Committee, summarising:
- The status of 'live' internal audit reports (outstanding management actions)
  - an update on progress against the annual audit plan:
  - a summary of internal audit performance, planning and resourcing issues; and
  - a summary of significant issues that impact on the Chief Internal Auditor's annual opinion
- 3.4. Appendix A summarises the activities of internal audit for the period up to January 2023.

## 4. CONSULTATION

- 4.1. No consultation has been undertaken with external bodies.

## 5. OPTIONS / ALTERNATIVES CONSIDERED

- 5.1. No other options are available.

## 6. COMMENTS BY THE GROUP HEAD OF CORPORATE SUPPORT/SECTION 151 OFFICER

- 6.1. A fit for purpose, monitored Internal Audit system enhances financial control and reduces the risk of theft and fraud for the Council.

## 7. RISK ASSESSMENT CONSIDERATIONS

- 7.1. The key risks arising from the process are:
- Issues raised by Internal Audit are not appropriately actioned by managers resulting in weak systems of control. Regular reporting and monitoring reduces the risk;

# Arun District Council

- Slippage of the approved Audit programme. This would mean the approved programme is not delivered and resources not directed as planned. Regular reporting and monitoring reduces the risk.

## **8. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER**

- 8.1. A sound system of Internal Audit is one of the requirements of the Local Government Finance Act 1972.

## **9. HUMAN RESOURCES IMPACT**

- 9.1. There are no impacts.

## **10. HEALTH & SAFETY IMPACT**

- 10.1. There are no impacts.

## **11. PROPERTY & ESTATES IMPACT**

- 11.1. There are no impacts

## **12. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE**

- 12.1. There are no impacts.

## **13. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE**

- 13.1. There are no impacts.

## **14. CRIME AND DISORDER REDUCTION IMPACT**

- 14.1. There are no impacts.

## **15. HUMAN RIGHTS IMPACT**

- 15.1. There are no impacts.

## **16. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS**

- 16.1. There are no impacts.

# Arun District Council

---

**CONTACT OFFICER:**

Name: Carolin Martlew

Job Title: Interim Group Head of Finance and Section 151 Officer

Contact Number: 01903 737558

**BACKGROUND DOCUMENTS:**

Annual Internal Audit Plan Report – Audit and Governance Committee 28 July 2022



---

# **Southern Internal Audit Partnership**

Assurance through excellence  
and innovation

---

## **ARUN DISTRICT COUNCIL INTERNAL AUDIT PROGRESS REPORT JANUARY 2023**

**Prepared by: Iona Bond, Senior Audit & Counter Fraud Manager**

**January 2023**

## 1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

*‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’*

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

*‘Independent, objective assurance and consulting activity designed to add value and improve an organisations’ operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.*

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations’ objectives.

## 2. Purpose of report

In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

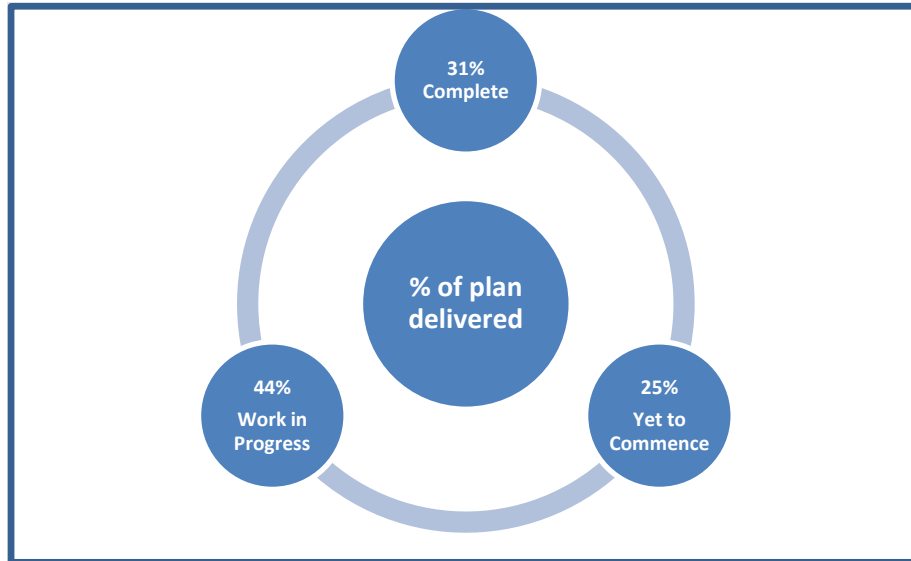
- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:

|                    |   |
|--------------------|---|
| <b>Substantial</b> | <i>A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.</i>  |
| <b>Reasonable</b>  | <i>There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</i>                     |
| <b>Limited</b>     | <i>Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.</i>                       |
| <b>No</b>          | <i>Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.</i> |



### 3. Performance dashboard



Page 258

#### Compliance with Public Sector Internal Audit Standards

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. The report 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.'*

#### 4. Analysis of ‘Live’ audit reviews

| Audit Review           | Report Date | Audit Sponsor | Assurance Opinion | Total Management Action(s)* | Not Accepted | Not Yet Due | Complete | Overdue |   |   |
|------------------------|-------------|---------------|-------------------|-----------------------------|--------------|-------------|----------|---------|---|---|
|                        |             |               |                   |                             |              |             |          | L       | M | H |
| Information Governance | 09/12/2022  | CEX           | Reasonable        | 8 (5)                       | 0            | 8 (5)       |          |         |   |   |
| Cyber Security         | 25/11/2022  | CEX           | Reasonable        | 10 (2)                      | 0            | 7 (2)       | 3 (0)    |         |   |   |
| Health and Safety      | 09/01/2023  | DoG           | Reasonable        | 8 (0)                       | 0            | 7 (0)       | 1 (0)    |         |   |   |
|                        |             |               |                   |                             |              |             |          |         |   |   |
|                        |             |               |                   |                             |              |             |          |         |   |   |
| <b>Total</b>           |             |               |                   |                             |              |             |          | 0       | 0 | 0 |

\*Total number of actions (total number of high priority actions)

#### Audit Sponsor

|     |                    |       |   |
|-----|--------------------|-------|---|
| CEX | Chief Executive    | DoE&C | Director of Environment and Communities |
| DoG | Director of Growth |       |   |

#### 5. Executive Summaries of reports published concluding a ‘Limited’ or ‘No’ assurance opinion

There have been no reports published concluding a “Limited” or “No” assurance opinion to date for 2022/23.

#### 6. Planning & Resourcing

The internal audit plan for 2022-23 was presented to the Corporate Management Team and the Audit & Governance Committee in July 2022.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Two further adjustments to the plan have been since our previous progress report presented to this Committee in November 2022 and these are reflected within section 8 of this report. Progress against the plan is detailed within section 7.

## 7. Rolling Work Programme

| Audit Review   | Sponsor | Scoping | Terms of Reference | Fieldwork | Draft Report | Final Report | Assurance Opinion | Comment |
|--|---------|---------|--------------------|-----------|--------------|--------------|-------------------|---------|
| <b>Corporate</b>   |         |         |                    |           |              |              |                   |         |
| Health and Safety (Corporate)                            | CEX     | ✓       | ✓                  | ✓         | ✓            | ✓            | Reasonable        |         |
| BCP and Emergency Planning                               | DoE&C   | ✓       | ✓                  | ✓         |              |              |                   |         |
| <b>Governance</b>  |         |         |                    |           |              |              |                   |         |
| Procurement  | CEX     | ✓       | ✓                  | ✓         |              |              |                   |         |
| Decision Making  | CEX     | ✓       | ✓                  | ✓         |              |              |                   |         |
| Use of Agency Workers                                    | CEX     | ✓       | ✓                  | ✓         | ✓            |              |                   |         |
| Information Governance                                   | CEX     | ✓       | ✓                  | ✓         | ✓            | ✓            | Reasonable        |         |
| <b>IT</b>  |         |         |                    |           |              |              |                   |         |
| Cyber Security   | DoG     | ✓       | ✓                  | ✓         | ✓            | ✓            | Reasonable        |         |
| IT Asset Management                                      | DoG     | ✓       | ✓                  | ✓         |              |              |                   |         |
| <b>Finance</b>   |         |         |                    |           |              |              |                   |         |
| Accounts Receivable & Debt Management                    | CEX     | ✓       | ✓                  |           |              |              |                   |         |
| Treasury Management                                      | CEX     | ✓       | ✓                  | ✓         | ✓            | ✓            | Substantial       |         |
| Council Tax  | CEX     | ✓       | ✓                  | ✓         | ✓            | ✓            | Substantial       |         |
| <b>Improving the Wellbeing of Arun</b>                   |         |         |                    |           |              |              |                   |         |
| Homelessness and Housing Advice                          | DoE&C   |         |                    |           |              |              |                   | Q4      |
| <b>Supporting Our Environment to Support Us</b>          |         |         |                    |           |              |              |                   |         |
| Climate Strategy   | DoG     | ✓       | ✓                  | ✓         |              |              |                   |         |
| Cleansing Services                                       | DoE&C   |         |                    |           |              |              |                   | Q4      |
| Programme and Project Management - Economic Regeneration | DoG     |         |                    |           |              |              |                   | Q4      |
| <b>Miscellaneous</b>                                     |         |         |                    |           |              |              |                   |         |
| Car Parks and Enforcement                                | DoG     |         |                    |           |              |              |                   | Q4      |

## 8. Adjustments to the Internal Audit Plan

The following adjustments to the plan have been made.

| Plan Variations                                |  |
|--|--|
| Removed from the Plan                          | Reason   |
| Transformation                                 | Transformation Plan not yet in place. Will feature annually within plans from 2023/24.   |
| Contract Management                            | Refuse Contract audit being covered this year, which will be used as assurance for this area.  |
| Partnership Working                            | Internal administrative arrangements/framework being reviewed.   |
| Savings Realisation                            | Savings Plan not yet in place. This will be developed, if required, following the completion of the transfer to zero based budgeting.                                  |
| Leisure Facilities                             | No operational issues. Better covered in a future year as a contract management audit, following business recovery post pandemic.                                      |
| Affordable Housing                             | Removed as a separate audit area as is better suited to inclusion as part of the Local Plan audit review.  |
| Repairs and Maintenance (statutory H&S checks) | Housing Regulator assurance obtained.  |
| Replacement Housing IT System                  | Areas for coverage have been identified and the timing for these falls within the 2023/24 plan.  |
| Corporate Vision/Plan                          | Timing better aligned to the 23/24 plan to allow for review of effectiveness of KPI's and monitoring. Time to be used for additional work on procurement               |
| Risk Management                                | Following the launch of the new risk management framework, better timed in 23/24 to allow for the process to embed. Time to be used for additional work on procurement |
| Financial Resilience                           | Capacity issues within Finance to service the audit and timing better aligned to the 23/24 plan to link with transformation and savings realisations plans.            |

This page is intentionally left blank

## Arun District Council

|  |  |
|--|--|
| <b>REPORT TO:</b>  | <b>AUDIT AND GOVERNANCE COMMITTEE – 28 February 2023</b>                               |
| <b>SUBJECT:</b>  | <b>Treasury Management – Strategy Statement and Annual Investment Strategy 2023/24</b> |
| <b>LEAD OFFICER:</b>   | <b>Sian Southerton, Senior Accountant (Treasury)</b>                                   |
| <b>LEAD MEMBER:</b>  | Cllr Clayden   |
| <b>WARDS:</b>  | <b>All</b>   |
| <b>DIRECTORATE POLICY CONTEXT:</b>   |  |
| <p><b>This report is the Annual Treasury Management Strategy Statement (TMSS).</b><br/>Including the Annual Investment Strategy (AIS) and Minimum Revenue Provision Policy Statement (MRP).</p> <p>It is the first and most important report considered by Audit and Governance Committee for the new financial year (2023-24). It is forward looking and covers:</p> <ul style="list-style-type: none"> <li>• the capital plans (including prudential indicators);</li> <li>• a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);</li> <li>• the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and</li> <li>• an Annual Investment strategy (the parameters on how investments are to be managed).</li> </ul> |  |
| <b>FINANCIAL SUMMARY:</b>  |  |
| The financial implications arising from Treasury Management are outlined throughout the report.  |  |

### 1. PURPOSE OF REPORT

1.1. The purpose of this report is to present the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) 2023/2024 to 2025/2026 and to enable the Audit and Governance Committee to scrutinise the report prior to taking it to Full Council on 15 March 2023.

# Arun District Council

## 2. RECOMMENDATIONS

Audit and Governance Committee is requested to recommend Full Council to:

- 2.1. Approve and adopt the Treasury Management Strategy Statement for 2023/24 to 2025/26.
- 2.2. Approve and adopt the Annual Investment Strategy for 2023/24 to 2025/26, including the addition of two new counterparties and removal of one;

Additions:

Australia & New Zealand Banking Group (ANZ)  
National Bank of Canada

Removal:

Qatar National Bank

- 2.3. Approve the Prudential Indicators within the TMSS and AIS for 2023/24 to 2025/26 as contained in appendix 1 and the body of the report.

## 3. EXECUTIVE SUMMARY

- 3.1. This TMSS/AIS report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2021. CIPFA published the updated Treasury Management and Prudential Codes on 20<sup>th</sup> December 2021 and has stated that after a soft introduction of the Codes, Local Authorities are expected to fully implement the required reporting changes from 2023/ 24.

## 4. DETAIL (Summary – further detail in the body of the report)

- 4.1. 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.
- 4.2. The second main function of the treasury management service is the funding of the Councils capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it 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 risk or cost objectives.
- 4.3. 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

## Arun District Council

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, including 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.”*

- 4.4. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.
- 4.5. **Treasury management investments** represent the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers, i.e., they are the residual cash left in an authority’s bank account resulting from the authority’s day to day activities. These are invested under the SLY principles (Security, Liquidity and then Yield).
- 4.6. 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.

- 4.7. In addition to the three major reports detailed above. From 2023/24 quarterly reporting to the end of June is also required. However, additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee and will be received at the September meeting (the report, will comprise updated Treasury/Prudential Indicators).

## 5. CONSULTATION

- 5.1. Consultation has been undertaken with the Council’s Treasury Advisors – Link Group, Link Treasury Services Limited.

## 6. OPTIONS / ALTERNATIVES CONSIDERED

- 6.1. The Treasury Management Strategy is a mandatory requirement under the Local Government act 2003 and therefore the only option available is to accept the recommendations.



# **Arun District Council**

## **7. COMMENTS BY THE GROUP HEAD OF FINANCE SUPPORT/SECTION 151 OFFICER**

7.1. Determining and pursuing a suitable Strategy will ensure that the expected budget income from interest on investments for the year 2023/24 is achieved and the risk of losing the Council's capital invested is minimised.

## **8. RISK ASSESSMENT CONSIDERATIONS**

8.1. The main risks in treasury management are financial ones. These are identified in the Council's Treasury Management Practices and the main risks in these activities are:

- liquidity;
- markets or investment;
- inflation;
- credit and counterparty;
- legal and regulatory

8.2. The consequences of ignoring these are poor practices implemented, diminished interest returns, loss of capital invested, poor liquidity (funds available when required). The Council's strategies guard against most of these risks.

## **9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER**

9.1. Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority including securing effective arrangements for treasury management. There are no specific legal implications arising from this report.

## **10. HUMAN RESOURCES IMPACT**

10.1. None direct

## **11. HEALTH & SAFETY IMPACT**

11.1. None direct

## **12. PROPERTY & ESTATES IMPACT**

12.1. None direct

## **13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE**

13.1. None

# Arun District Council

## 14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

- 14.1. To support the Council's 2030 carbon neutral target there should be consideration to transitioning current (and future) investments into more sustainable investment options. Currently this makes up 2.32% of the Council's total emissions, resulting in roughly 628.96 tCO<sub>2</sub>e being produced as per the carbon emissions audit 2021-2022.
- 14.2. Current Investments with CCLA (diversified fund and property fund and Standard Chartered (Sustainable deposits) have positive ESG factors.
- 14.3. Further options will be explored and considered.

## 15. CRIME AND DISORDER REDUCTION IMPACT

- 15.1. None

## 16. HUMAN RIGHTS IMPACT

- 16.1. None

## 17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

- 17.1. None

---

### CONTACT OFFICER:

Name: Sian Southerton

Job Title: Senior Accountant (Treasury)

Contact Number: 01903 737861

### BACKGROUND DOCUMENTS:

- The Local Government Act 2003 ([The Local Government Act 2003](#)).
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (Cipfa, December 2021) (*Link not available as copyright*).
- The Prudential Code for Capital Finance in Local Authorities (Cipfa, December 2021) (*Link not available as copyright*).
- MHCLG Guidance on Local Government Investments  
[Guidance on local government investments.pdf \(publishing.service.gov.uk\)](#)
- Committee General Fund Revenue and Capital Budgets and Housing Revenue Account Budgets 2023/24.
- Link Asset Services Ltd TMSS Template 2023/24. (*Link not available as copyright*).

# Arun District Council

## Treasury Management Strategy Statement and Annual Investment Strategy 2023/24



### 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 Authority, essentially the longer-term cash flow planning, to ensure that it 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 risk or cost objectives.

The contribution the treasury management function makes to the Council 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 (GF) balance.

# Arun District Council

CIPFA defines treasury management as:

*“The management of the local authority’s borrowing, investments and cash flows, including 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.”*

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

**Treasury management investments** represent the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers, i.e., they are the residual cash left in an authority’s bank account resulting from the authority’s day to day activities. These are invested under the SLY principles (Security, Liquidity and then Yield).

## 1.2 Reporting Requirements

### 1.2.1 Capital Strategy

The CIPFA 2021 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 the strategy is to ensure that all the Council’s elected members 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, Yield (SLY). This report will be considered at Policy and Finance committee on 7 March 2023 for approval by Full Council on 15 March 2023.

### 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.

- 1) **Prudential and treasury indicators and treasury strategy** (TMSS - this report) - The first and most important report is forward looking (2023-2024) and covers:
  - the capital plans (including prudential indicators)
  - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time)

## Arun District Council

- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
  - an Annual Investment Strategy (the parameters on how investments are to be managed)
  - it also reports on the current year progress to 31 December 2022
- 2) **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. This reports on the period up to 30 September 2023.
- 3) **An annual treasury report** – This is a backward looking review document (2022-2023) providing details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Audit and Governance Committee and will be presented at the following meetings;

- 1) TMSS – February 2023 meeting
- 2) Mid-year – November 2023 meeting
- 3) The annual report for 2022-23 – July 2023 meeting

In addition to the three major reports detailed above, from 2023/24 quarterly reporting to the end of June is also required. However, additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee and will be received at the September meeting (the report, will comprise updated Treasury/Prudential Indicators).

### 1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

#### Capital issues

- the capital plans and the associated 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

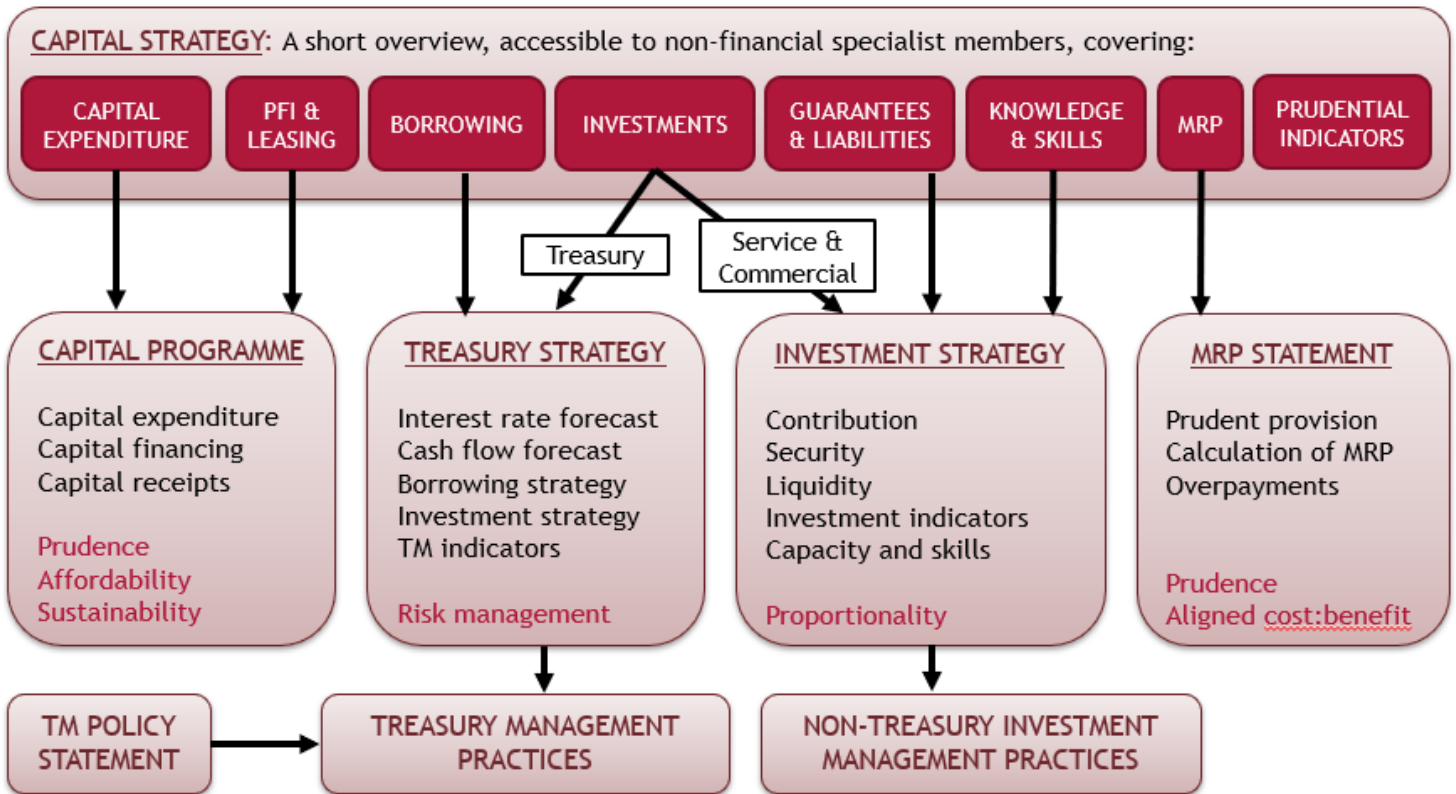
# Arun District Council

- 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.

The diagram below shows how Capital expenditure affects the Treasury Management Strategy

## Strategy Reports: England



### 1.4 Training

The CIPFA Treasury Management 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.

## **Arun District Council**

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making.

As a minimum, the following will be carried out to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning sessions for treasury management officers and council members.
- Request treasury management officers and council members to undertake self-assessment against the required competencies (as below)
- Have communication with officers and council members, encouraging them to highlight training needs.

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

All members were invited to attend a briefing session presented by Link Group (treasury advisors) explaining the roles and responsibilities of elected members and giving them an economic update. This briefing session was held on 3 October 2022 where 10 members attended. A longer more in depth training session is scheduled for the 22 June 2023.

The training needs of treasury management officers are periodically reviewed, and officers attend courses provided by appropriate trainers such as Link and CIPFA in addition to internal training relevant to finance.

A formal record of the training received by officers and members central to the Treasury function is maintained by the Senior Accountant responsible for the treasury function in compliance with the revised 2021 CIPFA Treasury Management Code.

### **1.5 Treasury management consultants**

The Council uses Link Group, Treasury Services Limited 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.

# Arun District Council

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 The Capital Prudential Indicators 2023/24 to 2025/26 (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 and Financing**

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 1 March 2023.

Currently Arun's only borrowing relates to the HRA self-financing settlement. However, the Council has a significant capital programme including sheltered accommodation, a decarbonisation programme, HRA acquisition/new garage sites, and a few smaller projects such as work to public conveniences and play areas.

Much of this programme will be funded from capital receipts and it is expected that additional borrowing will be required for both the GF and HRA, the timing of which is yet to be determined and will depend on the PWLB interest rates and internal resources available.

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 (both GF and HRA).

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.



## Arun District Council

| Capital Expenditure                            | Actual<br>2021/22<br>£'000 | Original<br>Estimate<br>2022/23<br>£'000 | Current<br>Estimate<br>outturn<br>2022/23<br>£'000 | Estimate<br>2023/24<br>£'000 | Estimate<br>2024/25<br>£'000 | Estimate<br>2025/26<br>£'000 |
|--|----------------------------|--|--|------------------------------|------------------------------|------------------------------|
| Non HRA  | 4,341                      | 3,939                                    | 7,962  | 5,944                        | 1,968                        | 2,610                        |
| HRA  | 6,940                      | 8,351                                    | 5,980  | 8,998                        | 4,967                        | 4,303                        |
| HRA settlement                                 | -                          |  | -  | -                            | -                            | -                            |
| <b>Total</b>                                   | <b>11,280</b>              | <b>12,290</b>                            | <b>13,942</b>                                      | <b>14,941</b>                | <b>6,935</b>                 | <b>6,913</b>                 |
| <b>Financed by:</b>                            |                            |  |  |                              |                              |                              |
| Capital receipts<br>(1-4-1)                    | 1,396                      | 1,500                                    | 1,249  | 1,285                        | 285                          | 285                          |
| Capital grants                                 | 3,174                      | 1,400                                    | 5,102  | 1,400                        | 1,400                        | 1,400                        |
| Capital reserves                               | 2,467                      | 5,336                                    | 2,851  | 2,931                        | 2,914                        | 2,903                        |
| Revenue  | 1,059                      | 567                                      | 1,944  | 0                            | 0                            | 0                            |
|  | <b>8,096</b>               | <b>8,803</b>                             | <b>11,146</b>                                      | <b>5,616</b>                 | <b>4,599</b>                 | <b>4,588</b>                 |
| <b>Net financing<br/>need for the<br/>year</b> | <b>3,184</b>               | <b>3,487</b>                             | <b>2,796</b>                                       | <b>9,325</b>                 | <b>2,336</b>                 | <b>2,325</b>                 |

### 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 through a revenue or capital resource, 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 indebtedness 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. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PPP lease provider 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:

## Arun District Council

| CFR at 31 March                      | Actual<br>2021/22<br>£,000 | Current<br>Estimate<br>2022/23<br>£,000 | Estimate<br>2023/24<br>£,000 | Estimate<br>2024/25<br>£,000 | Estimate<br>2025/26<br>£,000 |
|--------------------------------------|----------------------------|---|------------------------------|------------------------------|------------------------------|
| <b>Capital Financing Requirement</b> |                            |   |                              |                              |                              |
| Non HRA                              | (4,442)                    | (3,771)                                 | (314)                        | 166                          | 1,285                        |
| HRA                                  | 52,531                     | 53,581                                  | 55,666                       | 58,769                       | 64,529                       |
| <b>Total CFR</b>                     | <b>48,089</b>              | <b>49,810</b>                           | <b>55,352</b>                | <b>58,935</b>                | <b>65,814</b>                |
| <b>Movement in CFR</b>               | <b>(661)</b>               | <b>1,720</b>                            | <b>5,543</b>                 | <b>3,583</b>                 | <b>6,879</b>                 |

| <b>Movement in CFR represented by</b> |              |              |              |              |              |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| HRA unfinanced / Internally financed  | 3,184        | 2,500        | 3,539        | 5,080        | 8,038        |
| GF unfinanced / Internally financed   | 0            | 871          | 3,544        | 568          | 1,210        |
| Less MRP Leases                       | (301)        | (285)        | (175)        | (181)        | (186)        |
| Less VRP                              | (3,544)      | (1,365)      | (1,365)      | (1,884)      | (2,182)      |
| <b>Movement in CFR</b>                | <b>(661)</b> | <b>1,720</b> | <b>5,543</b> | <b>3,583</b> | <b>6,879</b> |

### 2.3 Liability Benchmark

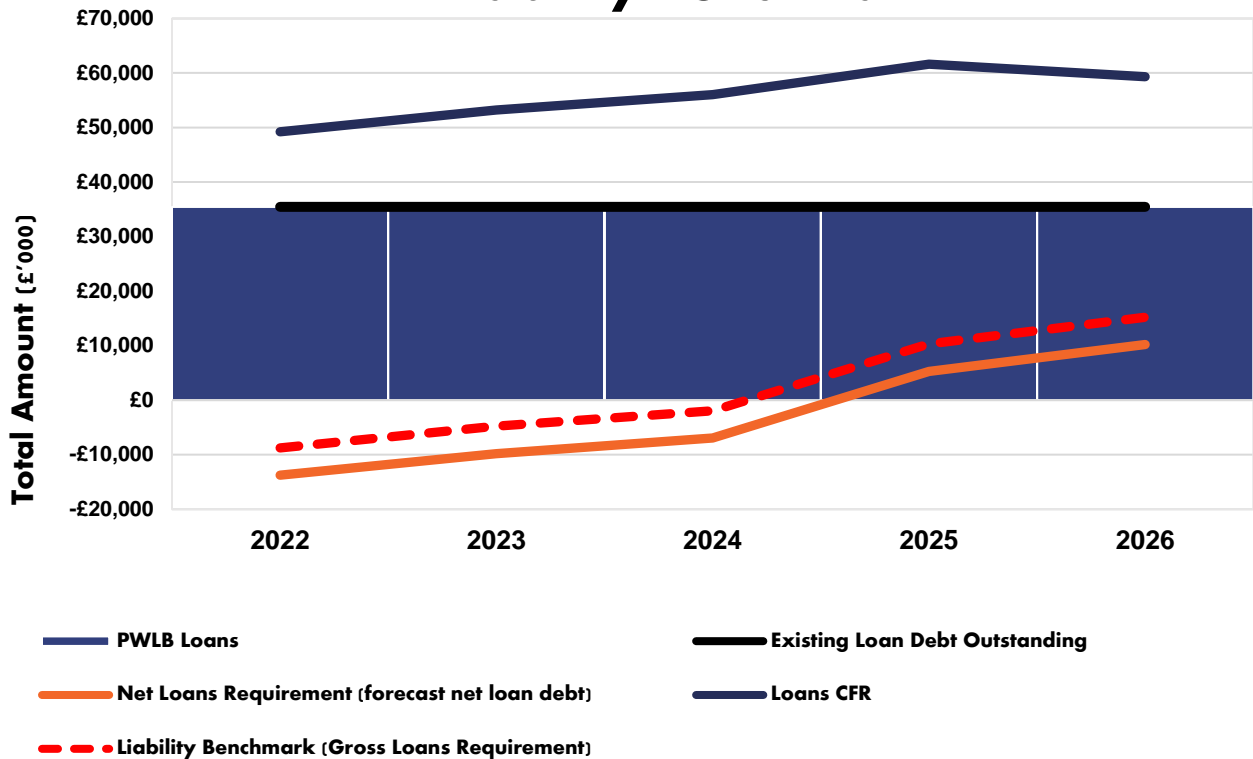
A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

# Arun District Council

## Liability Benchmark



The above chart shows the liability benchmark for the Council for the year ended 2022 through to the year ended March 2026. An explanation of what this is showing is highlighted below:

- The Blue line (at the top) represents the Loans CFR, (based on only approved prudential borrowing and planned MRP). The gap between this and the liability benchmark line represents in part the treasury management investments held by the Council which are required for management of liquidity and cashflow.
- The Black line represents the existing load debt outstanding and tracks the existing debt balance.
- Comparing the Red dashed line (liability benchmark) with the black line / blue bars (current borrowing portfolio) shows how the existing portfolio matches the current commitments of the Council.

A liability benchmark below the current maturity portfolio, indicates no additional borrowing need, and signifies surplus cash in excess of liquidity requirements as in the Councils current position.

### 2.4 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

## Arun District Council

(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<br>£m    | 2021/22<br>Actual<br>£m | 2022/23<br>Estimate<br>£m | 2023/24<br>Estimate<br>£m | 2024/25<br>Estimate<br>£m | 2025/26<br>Estimate<br>£m |
|-----------------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Fund balance                | 11.80                   | 10.47                     | 8.20                      | 9.19                      | 10.73                     |
| Earmarked Reserves          | 27.50                   | 19.70                     | 19.25                     | 18.81                     | 18.37                     |
| Capital Receipts            | 2.00                    | 1.91                      | 0.45                      | 0.57                      | 0.68                      |
| Provisions                  | 3.00                    | 2.73                      | 2.73                      | 2.73                      | 2.73                      |
| <b>Total core funds</b>     | <b>44.30</b>            | <b>34.81</b>              | <b>30.63</b>              | <b>31.30</b>              | <b>32.51</b>              |
| Other cashflow sums         | 26.05                   | 14.75                     | 13.92                     | 12.31                     | 10.19                     |
| <b>Expected investments</b> | <b>70.35</b>            | <b>49.56</b>              | <b>44.55</b>              | <b>43.61</b>              | <b>42.70</b>              |

### 2.5 Minimum revenue provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Council can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires Full Council approval in advance of each financial year. For expenditure incurred after the 1 April 2008 the Council is recommended to approve the following MRP Statement (detailed policy in appendix 2):

- **Asset life method (straight line)** – MRP will be based on the estimated life of the assets.

The Council does not currently have any General Fund debt liability and therefore is not statutorily required to make Minimum Revenue Provision (MRP). All external debt is currently for the Housing Revenue Account (HRA) and while MRP is not required for the HRA, a provision is set aside to repay these loans when they become due – voluntary provision. There are plans however for further borrowing (both HRA and General Fund) and to externalise the current internal borrowing and therefore MRP will be required.

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational.

## Arun District Council

The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

MRP in respect of assets acquired under Finance Leases will be charged at an amount equal to the principal element of the annual repayment.

### MRP Overpayments

Under the MRP guidance, charges made in excess of the statutory MRP can be made. These are known as voluntary revenue provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Up until the 31 March 2022 there were no VRP overpayments.

## 2.6 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<br>2021/22<br>% | Estimate<br>2022/23<br>% | Estimate<br>2023/24<br>% | Estimate<br>2024/25<br>% | Estimate<br>2025/26<br>% |
|---------|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Non-HRA | (2.06)%                | (1.97)%                  | *(6.51)%                 | (5.43)%                  | (4.30)%                  |
| HRA     | 31.35%                 | 15.92%                   | 18.19%                   | 20.25%                   | 21.56%                   |

*\*The increase in 2023-24 is due to the Bank of England rate rise but is expected to reduce again in 2024-2026.*

## 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

## Arun District Council

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 2022 and 31 December 2022 are summarised below;

|   | actual<br>31.3.22<br>£000 | actual<br>31.3.22<br>% | current<br>31.12.22<br>£000 | current<br>31.12.22<br>% |
|---|---------------------------|------------------------|-----------------------------|--------------------------|
| <b>Treasury investments:</b>                  |                           |                        |                             |                          |
| Diversified Funds                             | 2,000                     | 3%                     | 2,000                       | 3%                       |
| Property Funds                                | 5,000                     | 7%                     | 5,000                       | 8%                       |
| <b>In-house:</b>                              |                           |                        |                             |                          |
| Banks   | 44,000                    | 64%                    | 47,000                      | 72%                      |
| Building societies - unrated                  | 0                         | 0%                     | 0                           | 0%                       |
| Building societies - rated                    | 4,000                     | 6%                     | 3,000                       | 5%                       |
| Local authorities                             | 0                         | 0%                     | 0                           | 0%                       |
| DMADF (H.M.Treasury)                          | 0                         | 0%                     | 0                           | 0%                       |
| Money Market Funds                            | 13,950                    | 20%                    | 7,860                       | 12%                      |
| <b>Total treasury investments</b>             | <b>68,950</b>             | <b>100%</b>            | <b>64,860</b>               | <b>100%</b>              |
| <b>Treasury external borrowing:</b>           |                           |                        |                             |                          |
| PWLB  | -35,460                   | 99%                    | -35,460                     | 99%                      |
| Finance leases                                | -534                      | 1%                     | -334                        | 1%                       |
| <b>Total external borrowing</b>               | <b>-35,994</b>            | <b>100%</b>            | <b>-35,794</b>              | <b>100%</b>              |
| <b>Net treasury investments / (borrowing)</b> | <b>32,956</b>             |                        | <b>29,066</b>               |                          |

The investments held at 31<sup>st</sup> December 2022 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.

## Arun District Council

| £m                                       | 2021/22<br>Actual | 2022/23<br>Estimate | 2023/24<br>Estimate | 2024/25<br>Estimate | 2025/26<br>Estimate |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|
| <b>External Debt</b>                     |                   |                     |                     |                     |                     |
| <b>Debt at 1 April</b>                   | <b>44.32</b>      | <b>35.46</b>        | <b>37.96</b>        | <b>48.50</b>        | <b>60.00</b>        |
| Expected change in Debt                  | 0.00              | 2.5                 | 10.54               | 11.50               | 8.04                |
| Re-payments (HRA debt)                   | (8.86)            | 0                   | 0.00                | 0.00                | 0.00                |
| Other long-term liabilities (OLTL)       | 0.53              | 0.33                | 0.25                | 0.16                | 0.07                |
| <b>Actual gross debt at 31 March</b>     | <b>35.99</b>      | <b>38.29</b>        | <b>48.75</b>        | <b>60.16</b>        | <b>68.11</b>        |
| Capital Financing requirement – HRA      | 52.53             | 53.58               | 55.67               | 58.77               | 64.53               |
| Capital Financing requirement - GF       | (4.42)            | (3.77)              | (0.32)              | 0.17                | 1.29                |
| <b>The Capital Financing Requirement</b> | <b>48.09</b>      | <b>49.81</b>        | <b>55.35</b>        | <b>58.94</b>        | <b>65.82</b>        |
| Under / (over) borrowing                 | 12.10             | 11.52               | 6.6                 | (1.22)              | (2.29)              |

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 2023/24 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 £35.46m. 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 in 2023-24.

The Group Head of Finance 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 £59M in Appendix 1 (2023/24).

# Arun District Council

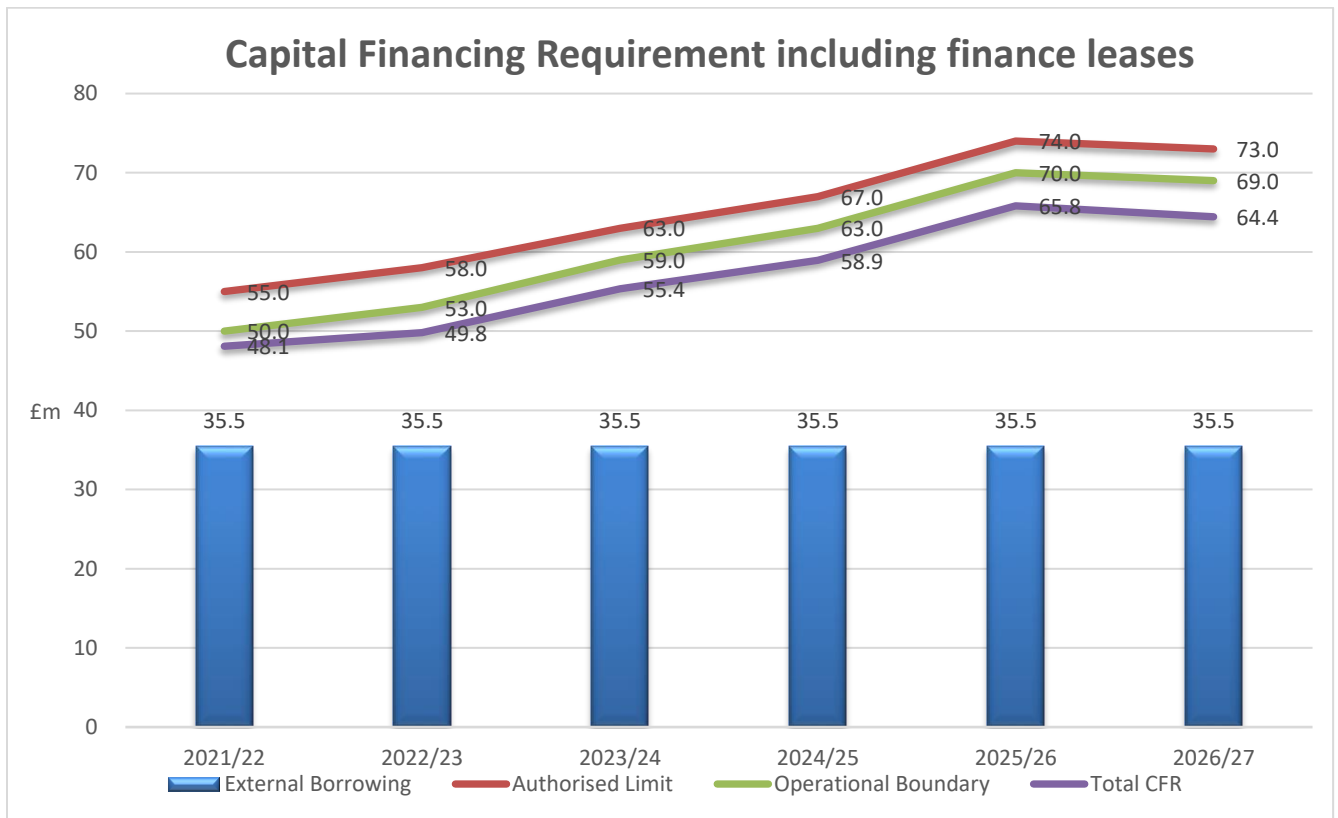
## 3.2.2 The Authorised Limit for external debt.

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.

- 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.
- The Council is asked to approve an Authorised Limit of £63M appendix 1 (2023/24).

## 3.2.3 The chart below shows the Council's projection of CFR and borrowing.



The bars in the chart above show the actual external debt (£35M) and does not include any potential future borrowing. The Authorised Limit and Operational Boundary factor in new potential borrowing which allows for expenditure on sheltered accommodation, garage sites, decarbonisation programme and a few smaller projects.



## Arun District Council

### 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 07 February 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps, followed by their commentary.

| Link Group Interest Rate View 07.02.23 |        |        |        |        |        |        |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|  | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 |
| BANK RATE                              | 4.25   | 4.50   | 4.50   | 4.25   | 4.00   | 3.75   | 3.25   | 3.00   | 2.75   | 2.75   | 2.50   | 2.50   | 2.50   |
| 3 month ave earnings                   | 4.30   | 4.50   | 4.50   | 4.30   | 4.00   | 3.80   | 3.30   | 3.00   | 2.80   | 2.80   | 2.50   | 2.50   | 2.50   |
| 6 month ave earnings                   | 4.40   | 4.50   | 4.40   | 4.20   | 3.90   | 3.70   | 3.20   | 2.90   | 2.80   | 2.80   | 2.60   | 2.60   | 2.60   |
| 12 month ave earnings                  | 4.50   | 4.50   | 4.40   | 4.20   | 3.80   | 3.60   | 3.10   | 2.70   | 2.70   | 2.70   | 2.70   | 2.70   | 2.70   |
| 5 yr PWLB                              | 4.00   | 4.00   | 3.90   | 3.80   | 3.70   | 3.60   | 3.50   | 3.40   | 3.30   | 3.20   | 3.10   | 3.10   | 3.10   |
| 10 yr PWLB                             | 4.20   | 4.20   | 4.10   | 4.00   | 3.90   | 3.80   | 3.60   | 3.50   | 3.50   | 3.40   | 3.30   | 3.30   | 3.20   |
| 25 yr PWLB                             | 4.60   | 4.60   | 4.40   | 4.30   | 4.20   | 4.10   | 3.90   | 3.80   | 3.70   | 3.60   | 3.50   | 3.40   | 3.40   |
| 50 yr PWLB                             | 4.30   | 4.30   | 4.20   | 4.10   | 3.90   | 3.80   | 3.60   | 3.60   | 3.40   | 3.30   | 3.20   | 3.20   | 3.10   |

Link Group's central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's continued policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Our best judgment is that there will be scope for an early Christmas present for households with a December rate cut priced in, ahead of further reductions in 2024 and 2025.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.5%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on significant excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

# Arun District Council

## PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.75%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

### The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

### Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the coming year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

### Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate later in the year or in 2024.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term **US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.

**Borrowing advice:** Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the

# Arun District Council

curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

## 3.4 Borrowing Strategy

3.4.1 The Council has a significant capital programme in 2023-2024 but reducing over the 2 years 2025-2027. The 2023-24 programme consists of expenditure largely relating to sheltered accommodation, decarbonisation strategy, Alexandra Theatre, Housing IT system, and smaller schemes such as public conveniences and play areas.

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 medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Group Head of Finance will monitor interest rates in financial markets and information provided by the Council's Treasury advisors to adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

The level of expenditure expected within the HRA will almost certainly require additional borrowing which is 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.

There are also plans to borrow for General Fund purposes and to externalise the current internal borrowing. The timing of any new borrowing has not been identified at the time of writing but all borrowing and its sources will be assessed for viability and sustainability before any action is taken.

Given the expected under borrowing position of the Council, the borrowing strategy will give consideration to the most appropriate source of funding from the following list:

- **Internal borrowing**, by running down cash balances and foregoing interest earned, as this is the cheapest form of borrowing:

## Arun District Council

- Weighing the short term advantage of internal borrowing against potential long term borrowing costs:
- **PWLB loans** up to 50 years (Certainty Rate is available to the Council at 0.2% below the normal terms):
- **Local authorities** (primarily shorter dated maturities):
- **Other forms** of borrowing where appropriate e.g., Municipal Bonds Agency or Bonds (Green or Local climate) where these offer better value than the PWLB.

Any decisions will be reported to the Audit and Governance Committee at the next available opportunity.

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.

### 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:

| <b>Maturity structure of fixed interest rate borrowing 2023/24</b> |                               |              |              |
|--|-------------------------------|--------------|--------------|
|  | <b>Actual at<br/>31/12/22</b> | <b>Lower</b> | <b>Upper</b> |
| 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.

## Arun District Council

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.

If rescheduling is to be undertaken, it will be reported to Full Council at the earliest meeting following its action.

### 3.7 New financial Institutions as a source of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may also still need to be given to sourcing funding from alternative sources at cheaper rates from the following:

- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency who may from time to time offer options to borrow more cheaply than from the PWLB, and therefore will be considered.

This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Full Council.

- “Green Bonds” or “Local Climate Bonds”

Green Bond borrowing is usually only available for significant amounts and takes time to arrange due to a due diligence process to safeguard the Council. Local Climate Bonds may offer another alternative for funding carbon reduction projects.

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

# Arun District Council

## 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.

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 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return) (SLY). 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, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs, but to also consider "laddering" investments for periods up to 5 years (but largely up to 24 months) with high credit rated financial institutions, whilst investment rates remain elevated, 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.

## Arun District Council

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;** 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 as shown in 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). The UK is excluded from this limit because it will be necessary to invest in UK banks and other institutions even if the sovereign rating is cut, but this will be done with caution.
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 7, 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 10 & 11, 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 (such as 10 and 11) 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

## Arun District Council

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. Consequently, any fluctuations in the value of the Councils' investments in the Property or diversified Fund will not be taken through the General Fund for the override period. In December 2022 as a result of further consultation it was decided to extend the override for a further 2 years until 31 March 2025.

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 at these increased levels.

### 4.2 Investment Policy – Environmental, Social and Governance (ESG) plus Ethical

Environmental, Social and Governance (ESG) issues are increasingly significant for investors and investment managers. The Council will consider ESG factors when placing any investment with current or new counterparties. Where matters for concern are identified for any specific counterparty, alternative counterparties will be considered.

A process for ongoing monitoring is being explored and a methodology will be documented in the treasury management practices once established (TMP1).

To support the Council's 2030 carbon neutral target there should be consideration to transitioning current (and future) investments into more sustainable investment options. Currently this makes up 2.32% of the Council's total emissions, resulting in roughly 628.96 tCO<sub>2</sub>e being produced.

In order to comply with treasury management guidance, the Council's investments will prioritise security, liquidity and yield in that order. The Ethical nature thereby becomes a fourth consideration in the decision making process.

### 4.3 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



## Arun District Council

- 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.

Credit rating information (from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's) is supplied by Link Group, our treasury advisors, on all active counterparties. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing.

The Group Head of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Full Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

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, time and monetary limits for each counterparty can be seen in Appendix 7.

### **Use of additional information other than credit ratings.**

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the Council's rating criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties.

These credit ratings are therefore supplemented with:

- 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.

Credit ratings and CDS spreads of the Council's approved counterparty list are monitored on a real time basis. Using Link's rating service, the Council is alerted to any changes to ratings of all three agencies electronically.

## Arun District Council

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

The Council's officers recognise that this external service and ratings should not be the sole determinant of the quality of an institution. In addition, it is important to continually assess and monitor the market data, market information and the economic and political environments in which they operate 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 the category limit that it falls in, for term deposits (currently category 2- £11M).

### Creditworthiness

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded.

### CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

## 4.4 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 £36M (23/24) of the total treasury management investment portfolio.
- **Country limit.** 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). 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.

# Arun District Council

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.

**Building Societies.** The Council includes building societies with assets greater than £10 billion (category 4). It recognises that this may carry a lower credit rating than the Council's other counterparties, therefore the lending limits are set at £4m for each counterparty in this category. (Nationwide is the exception as it fits into category 3 with a limit of £8m.)

Every effort will be made to spread the maturity profile (laddering) of investments to compensate for the lack of sector or country spreads (due to limited counterparties).

## 4.5 Investment Strategy

**In-house funds.** 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. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023. The value to be obtained from longer term investments will be carefully assessed. For cashflow balances, the Council will seek to use Money Market Funds (MMF's), call accounts, notice accounts and short dated deposits to benefit from the compounding of interest.

### **Investment returns expectations.**

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

| Average earnings in each year |       |
|-------------------------------|-------|
| 2023/24                       | 4.30% |
| 2024/25                       | 3.20% |
| 2025/26                       | 2.60% |
| 2026/27                       | 2.50% |
| Later years                   | 2.80% |

## Arun District Council

The average level of funds available for investment purposes is currently £63M (as at 31 December 2022). These funds are partially cash-flow derived and there is a core balance of approximately £45M 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 for when they become repayable, the Earmarked Reserves, Capital Receipt, General Fund and HRA balances which were £27.5, £2m, £8m and £6.8m at 31 March 2022 respectively.

The Council's budgeted rate of return for 2023/24 is 3.20% based on a return of 4.32% for funds that are already invested; 3.9% for the property fund (£5M), 3.3% for the diversified fund (£2m), 3.32% for the remaining core balances; and 1.95% for short term cash flow derived balances. The total investment income budget for 2023/24 is £1.54m (compared to £370k in 2022/23) which highlights a considerable increase in the rates contributing to the enhanced 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 particularly 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. Current rates are around 3.7%.

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.

**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):

| <b>Upper limit for principal sums invested for longer than 365 days</b> |                |                |                |
|---|----------------|----------------|----------------|
| <b>£m</b>   | <b>2023/24</b> | <b>2024/25</b> | <b>2025/26</b> |
| Principal sums invested for longer than 365 days                        | £36m           | £32m           | £28m           |
| Current investments as at 31/12/22 in excess of 1 year                  | £8m            | £7m            | £7m            |

The Council has the following spanning the financial year and there are no forward commitments (deals) for the financial year 2023/24;

## Arun District Council

- £5m invested in the CCLA property fund
- £2m invested in the CCLA diversified fund
- £1m invested with Goldman Sachs for 2 years (maturity – 6 January 2025).

### Changes of investment strategy from previous year

- This report includes additions to the counterparty lending list (appendix 7) in the way of Australia & New Zealand Banking Group (ANZ) and the National Bank of Canada. They both adhere to the minimum credit criteria in category 1 and 2 respectively and have been added for diversification and to offer further options due to the withdrawal of Qatar National Bank.
- Further borrowing options have been added to ensure the best funding source can be selected should the Council require external borrowing (3.7).
- **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 revisions need to be included in the reporting framework from the 2023/24 financial year. Therefore, the Council must 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.

Following the revised Codes, the following adaptations have been made in this report:

1. Inclusion of a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement shown in 2.3.
2. Management of the knowledge and skills register for officers and members involved in the treasury management function as addressed in 1.4.
3. The inclusion of one additional report every financial year to ensure that quarterly reporting of prudential indicators is provided. This is not required to be taken to Full Council (1.2.2).
4. An amendment to the Treasury Management Practices to address Environmental, social and governance (ESG) and Ethical issues within the Council's treasury management risk framework (TMP1) as covered in 4.2 above.

# Arun District Council

## 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 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 minimal 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 subscribed to Link's Investment Benchmarking Club to review the investment performance and risk of the portfolios. Reports are received quarterly.

## 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 External Fund Managers

The Council invests in externally managed pooled funds managed by CCLA (Churches, Charities and Local Authorities). £7m is currently invested split between: -

- £5m in a property fund and
- £2m in a diversified fund

The treasury officers receive regular reports and notifications of quarterly dividends payable on both funds.

A representative of CCLA gave a presentation on the current and forecasted performance of the funds at a meeting with officers in August 2022.

## 4.9 Scheme of delegation

Please see Appendix 9.

## 4.10 Role of the section 151 officer

Please see Appendix 10.

# Arun District Council

## Prudential and treasury indicators

## APPENDIX 1

| 1. PRUDENTIAL INDICATORS                              | 2021/22       | 2022/23                     | 2023/24         | 2024/25         | 2025/26         |
|---|---------------|-----------------------------|-----------------|-----------------|-----------------|
| <b>Extract from budget and rent setting report</b>    | <b>Actual</b> | <b>Probable<br/>outturn</b> | <b>Original</b> | <b>Original</b> | <b>Original</b> |
|   | <b>£'000</b>  | <b>£'000</b>                | <b>£'000</b>    | <b>£'000</b>    | <b>£'000</b>    |
| <b>Capital Expenditure</b>                            |               |                             |                 |                 |                 |
| Non – HRA   | 4,341         | 7,962                       | 5,944           | 1,968           | 2,610           |
| HRA   | 6,940         | 5,980                       | 8,998           | 4,967           | 4,303           |
| <b>TOTAL</b>  | <b>11,280</b> | <b>13,942</b>               | <b>14,941</b>   | <b>6,935</b>    | <b>6,913</b>    |
| <b>Ratio of financing costs to net revenue stream</b> |               |                             |                 |                 |                 |
| Non – HRA   | (2.06)%       | (1.97)%                     | (6.51)%         | (5.43)%         | (4.30)%         |
| HRA   | 31.35%        | 15.92%                      | 18.19%          | 20.25%          | 21.56%          |
| <b>Capital Financing Requirement as at 31 March</b>   |               |                             |                 |                 |                 |
| Non – HRA   | (4,442)       | (3,771)                     | (314)           | 166             | 1,285           |
| HRA   | 52,531        | 53,581                      | 55,666          | 58,769          | 64,529          |
| <b>TOTAL</b>  | <b>48,089</b> | <b>49,810</b>               | <b>55,352</b>   | <b>58,935</b>   | <b>65,814</b>   |
| <b>Annual change in Cap. Financing Requirement</b>    |               |                             |                 |                 |                 |
| Non – HRA   | (219)         | 671                         | 3,457           | 479             | 1,120           |
| HRA   | (442)         | 1,049                       | 2,085           | 3,104           | 5,760           |
| <b>TOTAL</b>  | <b>(661)</b>  | <b>1,720</b>                | <b>5,543</b>    | <b>3583</b>     | <b>6,879</b>    |
|   |               |                             |                 |                 |                 |

## Arun District Council

| 2. TREASURY MANAGEMENT INDICATORS   | 2021/22       | 2022/23             | 2023/24       | 2024/25       | 2025/26       |
|---|---------------|---------------------|---------------|---------------|---------------|
|   | Actual        | Probable<br>outturn | Original      | Original      | Original      |
|   | £'000         | £'000               | £'000         | £'000         | £'000         |
| <b>Authorised Limit for external debt</b>                                   |               |                     |               |               |               |
| Borrowing   | 54,000        | 57,000              | 59,000        | 63,000        | 70,000        |
| Other long term liabilities   | 1,000         | **1,000             | 4,000         | 4,000         | 4,000         |
| <b>TOTAL</b>  | <b>55,000</b> | <b>58,000</b>       | <b>63,000</b> | <b>67,000</b> | <b>74,000</b> |
| <b>Operational Boundary for external debt</b>                               |               |                     |               |               |               |
| Borrowing   | 49,000        | 52,000              | 55,000        | 59,000        | 66,000        |
| other long term liabilities   | 1,000         | **1,000             | 4,000         | 4,000         | 4,000         |
| <b>TOTAL</b>  | <b>50,000</b> | <b>53,000</b>       | <b>59,000</b> | <b>63,000</b> | <b>70,000</b> |
| <b>Actual external debt</b>   | *35,460       | 35,460              | 35,460        | 35,460        | 35,460        |
| <b>Upper limit for total principal sums invested for over 365 days (£m)</b> | <b>18,000</b> | <b>30,000</b>       | <b>36,000</b> | <b>32,000</b> | <b>28,000</b> |
|   |               |                     |               |               |               |

\*Debt for most of the year was £44.32m - £8.86m repaid on 28 March 2022

\*\* Originally £4m for leases but this has been deferred

The operational Boundary and Authorised Limit for external debt have been increase over the next 3 years due to expected expenditure on the following:

- Sheltered accommodation
- Housing new build programme
- General Fund programme (smaller projects)
- Decarbonisation programme
- Garage Sites programme

| <b>Maturity structure of fixed rate borrowing - upper &amp; Lower limits</b> | Actual at 31/12/22 | 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%        |



### 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.

## Arun District Council

- **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:

## Arun District Council

- 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 Group Head of Finance.
- 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 Group Head of Finance 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.

# Arun District Council

## Appendix 3

### INVESTMENTS at 31 December 2022

| Type of Investment/Deposit | Reference no. | Counterparty                                   | Issue Date | Maturity Date | Nominal               | Current Interest Rate |
|----------------------------|---------------|--|------------|---------------|-----------------------|-----------------------|
| Fixed Term Deposit         | 817           | Standard Chartered Bank - Sustainable Deposits | 06/01/2022 | 05/01/2023    | £1,000,000.00         | 0.8200                |
| Fixed Term Deposit         | 818           | Goldman Sachs International                    | 07/01/2022 | 05/01/2023    | £1,000,000.00         | 0.9300                |
| Fixed Term Deposit         | 839           | First Abu Dhabi Bank                           | 07/07/2022 | 05/01/2023    | £1,000,000.00         | 2.140                 |
| Fixed Term Deposit         | 838           | Qatar National Bank                            | 06/07/2022 | 06/01/2023    | £1,000,000.00         | 2.325                 |
| Fixed Term Deposit         | 843           | Nationwide Building Society                    | 28/07/2022 | 06/02/2023    | £1,000,000.00         | 2.000                 |
| Fixed Term Deposit         | 844           | National Westminster Bank                      | 28/07/2022 | 06/02/2023    | £1,000,000.00         | 2.200                 |
| Fixed Term Deposit         | 845           | Qatar National Bank                            | 11/08/2011 | 13/02/2023    | £1,000,000.00         | 2.715                 |
| Fixed Term Deposit         | 834           | Goldman Sachs International                    | 23/05/2022 | 23/02/2023    | £6,000,000.00         | 1.9800                |
| Fixed Term Deposit         | 849           | Santander UK Plc                               | 25/08/2022 | 24/02/2023    | £1,000,000.00         | 2.790                 |
| Fixed Term Deposit         | 832           | Standard Chartered Bank - Sustainable Deposits | 15/05/2022 | 06/03/2023    | £2,000,000.00         | 1.7900                |
| Fixed Term Deposit         | 821           | Close Brothers Limited                         | 21/03/2022 | 21/03/2023    | £4,000,000.00         | 1.5000                |
| Fixed Term Deposit         | 825           | Standard Chartered Bank - Sustainable Deposits | 31/03/2022 | 31/03/2023    | £1,000,000.00         | 1.9400                |
| Fixed Term Deposit         | 853           | Qatar National Bank                            | 28/09/2022 | 05/04/2023    | £4,000,000.00         | 4.685                 |
| Fixed Term Deposit         | 859           | Development Bank of Singapore (DBS)            | 01/12/2022 | 05/04/2023    | £1,000,000.00         | 3.750                 |
| Fixed Term Deposit         | 828           | Standard Chartered Bank - Sustainable Deposits | 06/04/2022 | 06/04/2023    | £2,000,000.00         | 1.94                  |
| Fixed Term Deposit         | 829           | Standard Chartered Bank - Sustainable Deposits | 14/04/2022 | 14/04/2023    | £1,000,000.00         | 1.88                  |
| Fixed Term Deposit         | 857           | Santander UK Plc                               | 10/11/2011 | 14/04/2023    | £1,000,000.00         | 3.640                 |
| Fixed Term Deposit         | 830           | Standard Chartered Bank - Sustainable Deposits | 21/04/2022 | 21/04/2023    | £1,000,000.00         | 1.9500                |
| Fixed Term Deposit         | 855           | Yorkshire Building Society                     | 20/10/2022 | 05/05/2023    | £2,000,000.00         | 3.940                 |
| Fixed Term Deposit         | 856           | NatWest Bank                                   | 04/11/2022 | 05/05/2023    | £2,000,000.00         | 3.800                 |
| Fixed Term Deposit         | 846           | National Westminster Bank                      | 11/08/2022 | 11/05/2023    | £1,000,000.00         | 2.500                 |
| Fixed Term Deposit         | 836           | National Westminster Bank                      | 22/06/2022 | 22/06/2023    | £1,000,000.00         | 2.550                 |
| Fixed Term Deposit         | 842           | First Abu Dhabi Bank                           | 21/07/2022 | 21/07/2023    | £1,000,000.00         | 3.010                 |
| Fixed Term Deposit         | 840           | Close Brothers Limited                         | 10/08/2022 | 10/08/2023    | £1,000,000.00         | 2.800                 |
| Fixed Term Deposit         | 848           | Santander UK Plc                               | 25/08/2022 | 25/08/2023    | £2,000,000.00         | 3.470                 |
| Fixed Term Deposit         | 850           | Standard Chartered Bank - Sustainable Deposits | 26/09/2022 | 26/09/2023    | £1,000,000.00         | 4.420                 |
| Fixed Term Deposit         | 851           | Standard Chartered Bank - Sustainable Deposits | 28/09/2022 | 28/09/2023    | £2,000,000.00         | 5.250                 |
| Fixed Term Deposit         | 852           | Goldman Sachs International                    | 28/09/2022 | 28/09/2023    | £1,000,000.00         | 5.450                 |
| Fixed Term Deposit         | 854           | Santander UK Plc                               | 28/09/2022 | 28/09/2023    | £2,000,000.00         | 5.250                 |
| Fixed Term Deposit         | 858           | NatWest Bank                                   | 23/11/2022 | 23/11/2023    | £1,000,000.00         | 4.350                 |
| Fixed Term Deposit         | 860           | Development Bank of Singapore (DBS)            | 15/12/2022 | 15/12/2023    | £1,000,000.00         | 4.500                 |
| Fixed Term Deposit         | 861           | Development Bank of Singapore (DBS)            | 22/12/2022 | 22/12/2023    | £1,000,000.00         | 4.450                 |
| Money Market Fund          | 110000        | Federated                                      |            |               | £10,000.00            | *3.244                |
| Money Market Fund          | 99999         | Fidelity                                       |            |               | £10,000.00            | *3.235                |
| Money Market Fund          | 120000        | Aberdeen Standard                              |            |               | £2,630,000.00         | *3.279                |
| Money Market Fund          | 130000        | Deutsche Bank                                  |            |               | £4,000,000.00         | *3.433                |
| Money Market Fund          | 100500        | CCLA (Churches, Charities and LA's)            |            |               | £1,210,000.00         | *3.313                |
| Property Fund              | 140000        | CCLA (Churches, Charities and LA's)            |            |               | £5,000,000.00         | *3.9900               |
| Diversified Fund           | 140500        | CCLA (Churches, Charities and LA's)            |            |               | £2,000,000.00         | *2.9300               |
|                            |               |  |            |               |                       |                       |
|                            |               |  |            |               | <b>£64,860,000.00</b> |                       |

# Arun District Council

## Interest Rate Forecast 2022- 2025

## APPENDIX 4

PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 19<sup>th</sup> November 2012.

| Link Group Interest Rate View | 07.02.23 |        |        |        |        |        |        |        |        |        |        |        |        |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                               | Mar-23   | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 |
| BANK RATE                     | 4.25     | 4.50   | 4.50   | 4.25   | 4.00   | 3.75   | 3.25   | 3.00   | 2.75   | 2.75   | 2.50   | 2.50   | 2.50   |
| 3 month ave eamings           | 4.30     | 4.50   | 4.50   | 4.30   | 4.00   | 3.80   | 3.30   | 3.00   | 2.80   | 2.80   | 2.50   | 2.50   | 2.50   |
| 6 month ave eamings           | 4.40     | 4.50   | 4.40   | 4.20   | 3.90   | 3.70   | 3.20   | 2.90   | 2.80   | 2.80   | 2.60   | 2.60   | 2.60   |
| 12 month ave earnings         | 4.50     | 4.50   | 4.40   | 4.20   | 3.80   | 3.60   | 3.10   | 2.70   | 2.70   | 2.70   | 2.70   | 2.70   | 2.70   |
| 5 yr PWLB                     | 4.00     | 4.00   | 3.90   | 3.80   | 3.70   | 3.60   | 3.50   | 3.40   | 3.30   | 3.20   | 3.10   | 3.10   | 3.10   |
| 10 yr PWLB                    | 4.20     | 4.20   | 4.10   | 4.00   | 3.90   | 3.80   | 3.60   | 3.50   | 3.50   | 3.40   | 3.30   | 3.30   | 3.20   |
| 25 yr PWLB                    | 4.60     | 4.60   | 4.40   | 4.30   | 4.20   | 4.10   | 3.90   | 3.80   | 3.70   | 3.60   | 3.50   | 3.40   | 3.40   |
| 50 yr PWLB                    | 4.30     | 4.30   | 4.20   | 4.10   | 3.90   | 3.80   | 3.60   | 3.60   | 3.40   | 3.30   | 3.20   | 3.20   | 3.10   |

## ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

|                          | <b>UK</b>                | <b>Eurozone</b>          | <b>US</b>             |
|--------------------------|--------------------------|--------------------------|-----------------------|
| <b>Bank Rate</b>         | 4.0%                     | 2.5%                     | 4.5%-4.75%            |
| <b>GDP</b>               | -0.3%q/q Q3<br>(1.9%y/y) | +0.1%q/q Q4<br>(1.9%y/y) | 2.9% Q4<br>Annualised |
| <b>Inflation</b>         | 10.5%/y/y (Dec)          | 8.5%/y/y (Jan)           | 6.5%/y/y (Dec)        |
| <b>Unemployment Rate</b> | 3.7% (Nov)               | 6.6% (Dec)               | 3.4% (Jan)            |

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will face some further upward pressures before dropping back slowly through 2023 to finish the year in the range of 4% - 5%.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

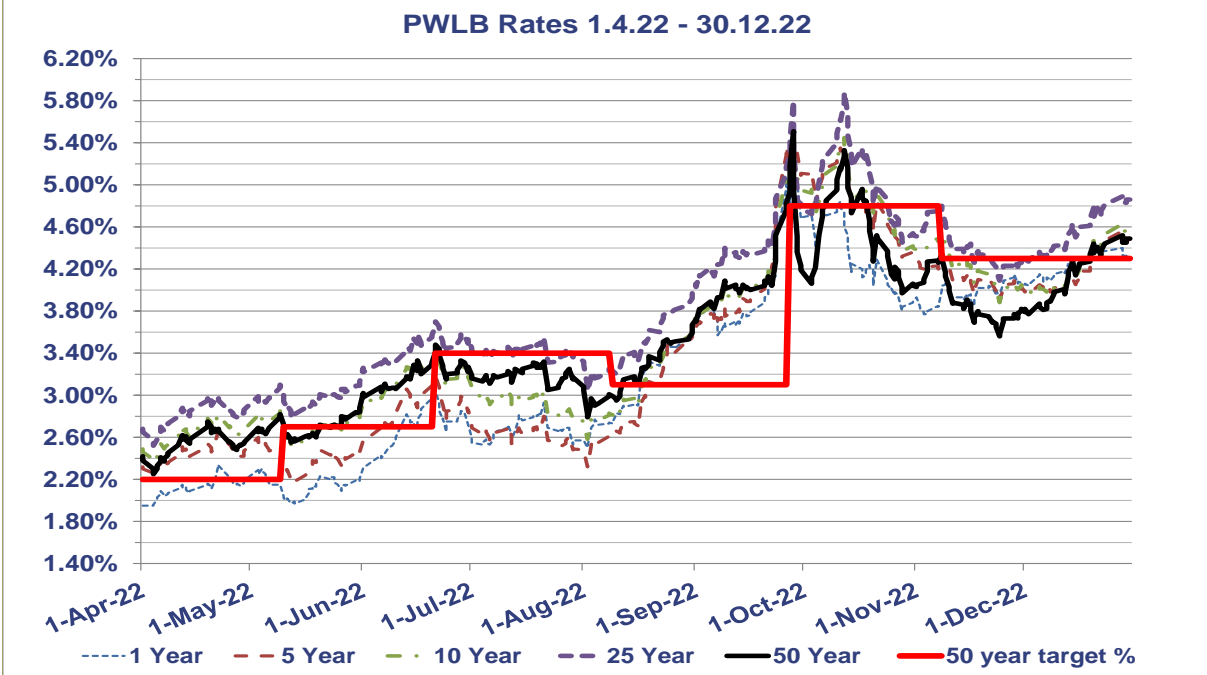
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Since then, rates rose to 3.5% in December and 4% in February and the market currently expects Bank Rate to hit 4.5% by June 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17<sup>th</sup> November gave rise to a net £55bn fiscal tightening, although much of the “heavy lifting” has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction in 2023. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank. Indeed, their February Monetary Policy Report suggests five quarters of negative growth, albeit a shallow recession with GDP expected to shrink 0.5% in 2023 and 0.25% in 2024.

The £ has remained resilient of late, recovering from a record low of \$1.035, on the Monday following the Truss government’s “fiscal event”, to \$1.22. Notwithstanding the £’s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first nine months of 2022/23 is clear to see.



However, the peak in rates on 28<sup>th</sup> September as illustrated in the table covering April to December 2022 below, has been followed by the whole curve shifting lower.

PWLB rates at the front end of the curve are generally over 1.25% lower now whilst the 50 years is also over 1% lower.

#### **HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.12.22**

|                | 1 Year     | 5 Year     | 10 Year    | 25 Year    | 50 Year    |
|----------------|------------|------------|------------|------------|------------|
| <b>Low</b>     | 1.95%      | 2.18%      | 2.36%      | 2.52%      | 2.25%      |
| <b>Date</b>    | 01/04/2022 | 13/05/2022 | 04/04/2022 | 04/04/2022 | 04/04/2022 |
| <b>High</b>    | 5.11%      | 5.44%      | 5.45%      | 5.88%      | 5.51%      |
| <b>Date</b>    | 28/09/2022 | 28/09/2022 | 12/10/2022 | 12/10/2022 | 28/09/2022 |
| <b>Average</b> | 3.26%      | 3.41%      | 3.57%      | 3.85%      | 3.51%      |
| <b>Spread</b>  | 3.16%      | 3.26%      | 3.09%      | 3.36%      | 3.26%      |

The S&P 500 and FTSE 100 have climbed in the early weeks of 2023, albeit the former finished 19% down in 2022 whilst the latter finished up 1%.

#### **CENTRAL BANK CONCERNS – DECEMBER 2022 & FEBRUARY 2023**

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

At the start of February, US rates have further increased by 0.25% to a range of 4.5% - 4.75%, whilst UK Bank Rate increased 0.5% to 4%.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.25% - 4.5%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data and labour market have proven stronger than expected.

In addition, the Bank's central message that GDP will fall for five quarters starting with Q1 2023 may prove to be a little pessimistic. Will the excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).



## Specified and Non-Specified Investments

## APPENDIX 6

|  | specified | non-specified | Minimum Credit Criteria<br>Fitch (and equivalent) /<br>Minimum Criteria | Maximum Investment per Institution                           | Max. maturity period        |
|--|-----------|---------------|---|--|-----------------------------|
| Term deposits – Local Authorities <b>(category 1)</b>                                  | ✓         | ✓             | --  | £12M   | 5 years                     |
| Term deposits – banks and building societies <b>(category 1)</b>                       | ✓         | ✓             | Short-term F1+<br>Long-term AA-   | £12M   | 5 years                     |
| Term deposits – banks and building societies <b>(category 2)</b>                       | ✓         | ✓             | Short-term F1<br>Long-term A+   | £11M   | 3 years                     |
| Term deposits – banks and building societies <b>(category 3)</b>                       | ✓         | ✓             | Short-term F1<br>Long-term A-   | £8M  | 2 years                     |
| Term deposits – building societies <b>(Category 4)</b>                                 | ✓         | ✓             | Assets in Excess of £10 billion   | £4M  | 1 year                      |
| Council's bank (for term deposits use appropriate category 1 to 3) <b>(category 5)</b> | ✓         | ✓             | n/a   | No limit<br><i>Although category limit for term deposits</i> | As category 1 to 3          |
| Callable deposits  | ✓         | ✓             | As category 1,2,3,4, and 5  | As category 1,2,3,4 and 5                                    | As category 1,2,3,4 and 5   |
| Forward deposits   | ✓         | ✓             | As category 1,2,3,4 and 5   | As category 1,2,3,4 and 5                                    | As category 1,2,3,4 and 5   |
| Debt Management Agency Deposit Facility (DMADF) – UK Government <b>(category 8)</b>    | ✓         | ✓             | --  | No limit   | Liquid (max is set by DMO - |

|  |        |   |               |     |   |
|--|--------|---|---------------|-----|---|
|  |        |   |               |     | Debt Management Office of HM Treasury)          |
| Bonds Issued by multilateral development banks ( <b>category 9</b> )   |        | ✓ | Long term AAA | £4M | 5 years   |
| <b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)</b>   |        |   |               |     |   |
| Money Market Funds (CNAV, LVNAV & VNAV)<br>Government Liquidity Fund ( <b>Category 6</b> )   | ✓      | ✓ | AAA           | £4M | liquid  |
| Alternative Investments<br><br>• Ultra-Short dated Bond Funds ( <b>Category 7</b> )  | ✓<br>✓ | ✓ | --            | £4M | liquid  |
| <b>Property Funds</b> approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority (FCA), such as the Local Authorities' Property Fund ( <b>Category 10</b> ) |        | ✓ | --            | £6M | These funds do not have a defined maturity date |
| <b>Multi-Asset Funds</b> – such as the Local Authorities' Diversified Fund ( <b>Category 11</b> )  |        | ✓ | --            | £6M | These funds do not have a defined maturity date |

**Part nationalised bank** - Previously category 6 was for part nationalised banks but there is no longer a requirement to have this separate category as all counterparties adhere to categories 1-5.

## APPENDIX 7

### LIST OF AUTHORISED COUNTERPARTIES

#### Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years

|   |                                    | <u>Long<br/>Term</u>       | <u>Short<br/>Term</u>       |
|---|------------------------------------|----------------------------|-----------------------------|
| <b>Min Criteria</b>                                   | <b>Fitch<br/>Moody<br/>S&amp;P</b> | <b>AA-<br/>Aa3<br/>AA-</b> | <b>F1+<br/>P-1<br/>A-1+</b> |
| All Local Authorities                                 |                                    |                            |                             |
| Australia & New Zealand banking Group Ltd (ANZ - AUS) |                                    |                            |                             |
| Bank of Nova Scotia (CAN)                             |                                    |                            |                             |
| Development Bank of Singapore Ltd (DBS-SING)          |                                    |                            |                             |
| National Australia Bank (AUS)                         |                                    |                            |                             |
| Oversea-Chinese Banking Corp Ltd (OCBC-SING)          |                                    |                            |                             |
| JP Morgan Chase (USA)                                 |                                    |                            |                             |
| United Overseas Bank Ltd (UOB - SING)                 |                                    |                            |                             |
| First Abu Dhabi Bank (U.A.E)                          |                                    |                            |                             |

#### Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

|  |                                    | <u>Long<br/>Term</u>    | <u>Short<br/>Term</u>     |
|--|------------------------------------|-------------------------|---------------------------|
| <b>Min Criteria</b>                                  | <b>Fitch<br/>Moody<br/>S&amp;P</b> | <b>A+<br/>A1<br/>A+</b> | <b>F1<br/>P-2<br/>A-1</b> |
| Barclays Bank plc (RFB & NRFB) (UK)                  |                                    |                         |                           |
| Bank of Scotland PLC (RFB) (Lloyds Banking Group-UK) |                                    |                         |                           |
| Goldman Sachs International Bank (UK)                |                                    |                         |                           |
| HSBC Bank plc (RFB & NRFB) (UK)                      |                                    |                         |                           |
| National Bank of Canada (CAN)                        |                                    |                         |                           |
| National Westminster Bank PLC (RFB) (UK)             |                                    |                         |                           |
| Santander (UK)                                       |                                    |                         |                           |
| Standard Chartered Bank (UK)                         |                                    |                         |                           |
| The Royal Bank of Scotland PLC (RFB) (UK)            |                                    |                         |                           |

#### Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years

|                                  |                                    | <u>Long<br/>Term</u>    | <u>Short<br/>Term</u>     |
|----------------------------------|------------------------------------|-------------------------|---------------------------|
| <b>Min Criteria</b>              | <b>Fitch<br/>Moody<br/>S&amp;P</b> | <b>A-<br/>A3<br/>A-</b> | <b>F1<br/>P-2<br/>A-1</b> |
| 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 for Term deposit limit)

Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2 for Term deposit limit)

**Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)**

**Category 6 - Money Market Funds (MMF's)**

(CNAV, LVNAV, VNAV & Enhanced MMF's)

**Limit of £4million for each institution**

|  | <u>Fitch</u> | <u>NAV</u> |
|--|--------------|------------|
| 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 7 - Alternative Investments - No defined maturity date**

**Maximum investment £4 million**

Ultra-Short dated Bond Funds

**Category 8 - Debt Management Agency Deposit Facility (DMADF)**

**NO LIMIT (UK Govt)**

Debt management Office (DMO)

**Category 9 - Bonds issued by multilateral development banks - 5 Years**

**Maximum investment £4 million**

AAA

**Category 10 – Property Funds - No defined maturity date**

**Maximum investment £6 million**

CCLA - Property Fund

**Category 11 - Multi-Asset Funds - No defined maturity date**

**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
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.S.A. (S&P AA+)

### AA+

- Finland

### AA

- First Abu Dhabi (UAE)
- France

### AA-

- Belgium (S&P AA)
- **U.K.** (S&P AA)

Consideration will be given to other factors, including Ethical, Environmental, Social and Governance standards when considering investments in Non-Uk destination.

As such, countries with an appropriate sovereign rating will not be used where matters identified do not align with the respective Council's values.

As detailed in 4.1 (7) it has been determined that the UK will remain an approved country for investments regardless of its sovereign rating if after careful consideration, it is deemed appropriate to do so.

## Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- 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 organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit and Governance Committee (responsibility for scrutiny)

Receiving and reviewing the following and making recommendations to Full Council (the responsible body).

- the Treasury Management Strategy Statement (TMSS) and regular monitoring reports on compliance with the Treasury Management Strategy, practices and procedures.

**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.

|  |   |
|--|---|
| <b>REPORT TO:</b>  | <b>Audit and Governance Committee – 28 February 2023</b>                      |
| <b>SUBJECT:</b>  | <b>Approval of Accounting Policies 2022/23</b>                                |
| <b>LEAD OFFICER:</b>   | <b>Carolyn Martlew, Interim Group Head of Finance and Section 151 Officer</b> |
| <b>LEAD MEMBER:</b>  | Councillor Mike Clayden   |
| <b>WARDS:</b>  | <b>All</b>  |
| <b>CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:</b>                                   |   |
| The Council's financial planning and reporting promotes all the Council's Corporate Priorities.  |   |
| <b>DIRECTORATE POLICY CONTEXT:</b>   |   |
| The Council's financial planning and reporting has an effect on all Directorates of the Council. |   |
| <b>FINANCIAL SUMMARY:</b>  |   |
| No direct financial implications arising from the report   |   |

**1. PURPOSE OF REPORT**

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

**2. RECOMMENDATIONS**

- 2.1. The Committee is requested to approve the accounting policies that will be applied to the Statement of Accounts 2022/23.

**3. EXECUTIVE SUMMARY**

- 3.1. The report allows the Audit and Governance Committee to consider and approve the accounting policies that will be applied to the Statement of Accounts 2022/23 for approval by the Committee. At the time of writing this report the deadline for completion of the draft accounts is 31 July 2023 and approval of the final audited accounts 30 September 2023. Members will be updated if there are any changes to these dates.

**4. DETAIL**

- 4.1. It is the responsibility of those charged with governance (the Audit and Governance Committee) to consider and agree the accounting policies to be applied to the Statements of Accounts for the years ended 31 March 2023.



- 4.2. The Statement of Accounts sets out the Council's income and expenditure for the years, and its financial position as at 31 March 2023.
- 4.3. 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 are included in Appendix 1.
- 4.4. 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.

## **5. CONSULTATION**

- 5.1. No consultation has been undertaken with external bodies.

## **6. OPTIONS / ALTERNATIVES CONSIDERED**

- 6.1. There are no other options available. Accounting policies are a statutory requirement.

## **7. COMMENTS BY THE INTERIM GROUP HEAD OF FINANCE/SECTION 151 OFFICER**

- 7.1. Approval of the policies ensure the Statement of Accounts is prepared using proper accounting practices as required by statute.

## **8. RISK ASSESSMENT CONSIDERATIONS**

- 8.1. To ensure that the Statement of Accounts is prepared using proper accounting practices as required by the Local Government Act 2003.
- 8.2. Potential adverse audit outcomes of not having approved policies.

## **9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER**

- 9.1.

## **10. HUMAN RESOURCES IMPACT**

- 10.1. There are no impacts.

**11. HEALTH & SAFETY IMPACT**

11.1. There are no impacts.

**12. PROPERTY & ESTATES IMPACT**

12.1. There are no impacts.

**13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE**

13.1. There are no impacts.

**14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE**

14.1. There are no impacts.

**15. CRIME AND DISORDER REDUCTION IMPACT**

15.1. There are no impacts.

**16. HUMAN RIGHTS IMPACT**

16.1. There are no impacts.

**17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS**

17.1. There are no impacts.

---

**CONTACT OFFICER:**

Name: Karl Smith

Job Title: Interim Financial Services Manager/Deputy s151 Officer

Contact Number: 01903 737562

**BACKGROUND DOCUMENTS:**

Prudential Code (CIPFA)

The Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (CIPFA)

### Note 1 - Accounting Policies

#### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. 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 2022/23, 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 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 statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under 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 increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

#### *Financial Assets 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:*

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 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 40% of the cost of new social housing, the remaining 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 is virtually certain that reimbursement will be received if the Council settles the obligation.

### *Contingent Liabilities:*

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

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

### *Contingent Assets:*

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

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

### **xviii. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

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

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

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

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

### **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 participants act in their economic best interest. When measuring the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use is taken into account.

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

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

This page is intentionally left blank

## Arun District Council

|   |  |
|---|--|
| <b>REPORT TO:</b>   | <b>Audit and Governance Committee 28 February 2023</b> |
| <b>SUBJECT:</b>   | <b>Housing Fraud update report</b>                     |
| <b>LEAD OFFICER:</b>  | <b>Johanne Batty Neighbourhood Services Manager</b>    |
| <b>LEAD MEMBER:</b>   | <b>Cllr Clayden</b>                                    |
| <b>WARDS:</b>   | <b>All</b>   |
| <b>CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:</b>  |  |
| <p>The report will support the following areas in the corporate vision.</p> <p>Delivering the right homes in the right places</p> <p>Provide a mixed housing economy within the district for all, regardless of age or circumstances, where different types of homes are available, and people can choose to rent or buy.</p> <p>Continue to bring empty homes back into use for the benefit of the community.</p> <p>The report will share with Members the number of fraud referrals received and the outcomes of these. The report shares where we have been able to successfully obtain properties back supporting our corporate priorities to deliver homes in the right places and bring empty homes back into use.</p> |  |
| <b>DIRECTORATE POLICY CONTEXT:</b>  |  |
| <p>The Prevention of Social Housing Fraud Act 2013 sets out provisions about the investigation of social housing fraud and creates offences and makes other provisions relating to sub-letting and parting with possession of social housing.</p> <p>We investigate housing fraud to make sure that homes are fairly given to the people who need them.</p>   |  |
| <b>FINANCIAL SUMMARY:</b>   |  |
| <p>The report sets out the financial savings to the council from 2018-19 to year to date.</p>   |  |

**1. PURPOSE OF REPORT**

To provide an update to members

**2. RECOMMENDATIONS**

Audit and Governance Members are asked to note the content of this report

### 3. EXECUTIVE SUMMARY

At the Audit and Governance Committee meeting the Committee requested that an update report be provided to the Committee on Housing Fraud.

### 4. DETAIL

#### 1. BACKGROUND

1.1 At the last Audit and Governance meeting Members asked for an update on Tenancy fraud to be brought to this meeting.

#### Fraud Investigation activity 1 January 2022 - 31 December 2022

|   |                   |
|---|-------------------|
| Number of referrals received                                    | 261               |
| Properties successfully obtained back                           | 8                 |
| Sole to joint applications refused                              | 0                 |
| Mutual Exchanged applications refused                           | 3                 |
| Tenancy succession applications declined                        | 0                 |
| Number of cases referred for legal action (awaiting Court date) | 1                 |
| Housing Benefit and Council Tax reclaimed                       | £8,600            |
| Fraud saving (11 x £93k)  | £1,023,000        |
| <b>Total financial saving to the Council</b>                    | <b>£1,031,600</b> |

#### Fraud Investigation comparison data 2018 to date

|   | 2018-19           | 2019-20           | 2020-21   | 2021-22         | 2022-23           |
|---|-------------------|-------------------|-----------|-----------------|-------------------|
|   |                   |                   |           |                 | Apr-Dec inc       |
| Number of referrals received                                    | Unrecorded        | 145               | 0         | 189             | 215               |
| Properties successfully obtained back                           | 14                | 12                | 0         | 9               | 8                 |
| Sole to joint applications refused                              | 1                 | 0                 | 0         | 0               | 0                 |
| Mutual Exchanged applications refused                           | 0                 | 0                 | 0         | 0               | 3                 |
| Tenancy succession applications declined                        | 0                 | 0                 | 0         | 0               | 0                 |
| Number of cases referred for legal action (awaiting Court date) | 0                 | 0                 | 0         | 0               | 1                 |
| Housing Benefit and Council Tax reclaimed                       | £15,920           | £0                | £0        | £2,324          | £8,600            |
| Fraud saving  | £1,320,000        | £1,116,000        | £0        | £837,000        | £1,023,000        |
| <b>Total financial saving to the Council</b>                    | <b>£1,335,920</b> | <b>£1,116,000</b> | <b>£0</b> | <b>£839,324</b> | <b>£1,031,600</b> |

Please note that 2020-21 the post remained vacant

### 5. CONSULTATION

*Not applicable*

### 6. OPTIONS / ALTERNATIVES CONSIDERED

**Not applicable**

**7. COMMENTS BY THE INTERIM GROUP HEAD OF FINANCE/SECTION 151 OFFICER**

Not applicable

**8. RISK ASSESSMENT CONSIDERATIONS**

Not applicable

**9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER**

No applicable

**10. HUMAN RESOURCES IMPACT**

Not applicable

**11. HEALTH & SAFETY IMPACT**

Not applicable

**12. PROPERTY & ESTATES IMPACT**

Not applicable

**13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE**

Not applicable

**14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE**

No applicable

**15. CRIME AND DISORDER REDUCTION IMPACT**

Not applicable

**16. HUMAN RIGHTS IMPACT**

Not applicable



**17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS**

Not applicable

---

**CONTACT OFFICER:**

Name: Johanne Batty  
Job Title: Neighbourhood Services Manager  
Contact Number: 01903 737221

**BACKGROUND DOCUMENTS:** *None*

## AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME – 2023/2024

| <b>Date of Meeting: 28 February 2023</b>  |   |  |
|---|---|--|
| <b>Subject</b>  | <b>Lead Officer / Member</b>                          | <b>Comments</b>  |
| <b>Statement of Accounts</b>  |   |  |
| Annual Statement of Accounts 2021/22 and Letter of Representation                     | Group Head of Finance                                 |  |
| Final Annual Governance Statement 2021/22   | Internal Audit Manager                                |  |
| Approval of Accounting Policies 2022/23   | Interim Financial Services Manager                    | If CIPFA advise of any changed requirements, then an update will be provided at the next meeting |
| <b>External Audit</b>   |   |  |
| Audit Results Report  | Ernst & Young   | Covering the audit of the 2021/22 Accounts   |
| Update on Appointment of External Auditor   | Internal Audit Manager                                |  |
| <b>Treasury Management</b>  |   |  |
| Treasury Management Strategy Statement and Annual Investment Strategy                 | Senior Accountant (Treasury Management)               | For approval by Full Council (15 Mar 2023)   |
| <b>Internal Audit</b>   |   |  |
| Internal Audit Charter  | Southern Internal Audit Partnership                   |  |
| Annual Internal Audit Plan 2023/24  | Southern Internal Audit Partnership                   |  |
| Progress Against The Audit Plan   | Southern Internal Audit Partnership                   |  |
| <b>Other Items</b>  |   |  |
| Members' Allowances – Extension of Appointment for the Independent Remuneration Panel | Group Head of Law & Governance and Monitoring Officer |  |
| Progress update on housing tenancy fraud  | Neighbourhood Services Manager                        | Annual update as requested by the Committee  |
| <b>Work Programme</b>   |   |  |
| To agree the rolling work programme for 2023/24                                       |   |  |

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 – 2023/2024**

| <b>Date of Meeting: (xx July 2023) TBC</b>  |   |  |
|---|---|--|
| <b>Subject</b>  | <b>Lead Officer / Member</b>                  | <b>Comments</b>  |
| <b>Statement of Accounts</b>  |   |  |
| Draft Annual Governance Statement 2022/23   | Group Head of Finance                         | Draft version to be considered by Committee (final version will be presented with the Annual Accounts) |
| <b>External Audit</b>   |   |  |
| Auditor's Annual Report   | Ernst & Young                                 | Covering the audit of the 2021/22 Accounts   |
| Audit Planning Report   | Ernst & Young                                 | Covering the audit of the 2022/23 Accounts TBC)  |
| Response to E&Y on annual assurance letter regarding governance arrangements                              | Committee Chair                               | Letter to be sent to external audit (TBC)  |
| <b>Governance Framework</b>   |   |  |
| Local Code of Corporate Governance  | Group Head of Finance                         |  |
| <b>Treasury Management</b>  |   |  |
| Treasury Management Annual Report 2022/23   | Senior Accountant (Treasury Management)       | Recommendations for approval by Full Council (xx Sep 2023)   |
| <b>Internal Audit</b>   |   |  |
| Annual Internal Audit Report & Opinion 2022/23  | Southern Internal Audit Partnership           |  |
| <b>Other Items</b>  |   |  |
| Counter-Fraud Report 2022/23  | TBC   |  |
| Chair's Annual Report To Council  | Committee Chair                               | To be presented to Full Council  |
| Annual Review Of The Partnerships Register  | Group Head of Organisational Excellence (TBC) | Requested by the Committee at its November 2021 meeting  |
| Annual update on the Council's use of powers under the Regulation of Investigatory Powers Act 2000 (RIPA) | Group Head of Law & Governance (TBC)          |  |
| <b>Work Programme</b>   |   |  |

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2023/2024**

|   |  |  |
|---|--|--|
| To agree the rolling work programme for 2023/24 |  |  |
|---|--|--|

| <b>Date of Meeting: (xx September 2023) TBC</b> |   |   |
|---|---|---|
| <b>Subject</b>                                  | <b>Lead Officer / Member</b>            | <b>Comments</b>   |
| <b>Internal Audit</b>                           |   |   |
| Progress Against The Audit Plan                 | Southern Internal Audit Partnership     |   |
| <b>Treasury Management</b>                      |   |   |
| Treasury Management Interim Report              | Senior Accountant (Treasury Management) | TBC<br>Recommendations for approval by Full Council (xx Nov 2023) |
| <b>Work Programme</b>                           |   |   |
| To agree the rolling work programme for 2023/24 |   |   |

| <b>Date of Meeting: (xx November 2023) TBC</b>  |   |  |
|---|---|--|
| <b>Subject</b>                                  | <b>Lead Officer / Member</b>            | <b>Comments</b>  |
| <b>Treasury Management</b>                      |   |  |
| Treasury Management Mid-Year Report             | Senior Accountant (Treasury Management) | Recommendations for approval by Full Council (xx Jan 2024) |
| <b>Internal Audit</b>                           |   |  |
| Progress Against The Audit Plan                 | Southern Internal Audit Partnership     |  |
| <b>Governance Framework</b>                     |   |  |
| Risk Management Framework                       | Finance & Risk Manager                  |  |
| Updated Corporate Risk Register 2023/24         | Finance & Risk Manager                  |  |
| <b>Work Programme</b>                           |   |  |
| To agree the rolling work programme for 2023/24 |   | Updates, etc.  |

**Other items to be considered in Work Programme:-**

**Independent Members' Remuneration Panel**

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2023/2024**

- 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)

Relevant policy reviews, updates, etc.