



# Public Document Pack

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Committee Manager Carley Lavender

22 July 2019

## **Audit & Governance Committee**

A meeting of the Audit & Governance Committee will be held in Committee Room 1 (Pink Room) Arun Civic Centre on the Tuesday 30th July 2019 **at 6.00 pm** and you are requested to attend.

Members: Councillors Erskine (Chairman), Haywood (Vice-Chair), Bennett, Bicknell, Brooks, Clayden, Dendle, Madeley, Thurston and Tilbrook

## **AGENDA**

### **1. APOLOGIES FOR ABSENCE**

### **2. DECLARATIONS OF INTEREST**

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

Members and officer should make their declaration by stating:

- a) the application they have the interest in
- b) whether it is a pecuniary, personal and/or prejudicial
- c) the nature of the interest
- d) if it is a prejudicial or pecuniary interest, whether they will be exercising their right to speak to the application

3. MINUTES (Pages 1 - 8)  
To approve as a correct record of the Minutes of the meeting of the Audit & Governance Committee held on 2 July 2019.
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. RESPONSE TO ERNST & YOUNG ON ANNUAL ASSURANCE LETTER REGARDING GOVERNANCE ARRANGEMENTS (Pages 9 - 16)  
The Committee is requested to note the attached correspondence.
6. ERNST & YOUNG ANNUAL AUDIT FEE LETTER 2019/20 (Pages 17 - 20)  
To be presented by Ernst & Young LLP.
7. ERNST & YOUNG AUDIT RESULTS REPORT (Pages 21 - 70)  
This report will be presented by Ernst & Young LLP.
8. STATEMENT OF ACCOUNTS 2018/19 (Pages 71 - 198)  
This report will be presented by the Financial Services Manager, Carolin Martlew.
9. ANNUAL GOVERNANCE STATEMENT 2018/19 AND LOCAL CODE OF CORPORATE GOVERNANCE 2019/20 (Pages 199 - 232)  
The attached reports will be presented by Stephen Pearse, Internal Audit Manager.
10. TREASURY MANAGEMENT ANNUAL REPORT 2018/19 (Pages 233 - 250)  
The attached report will be presented by Sian Southerton, Senior Accountant / Treasury & Investment Officer.
11. COUNTER-FRAUD REPORT 2018/19 (Pages 251 - 266)  
To be presented by Stephen Pearse, Internal Audit Manager.
12. INTERNAL AUDIT ANNUAL REPORT & OPINION 2018/19 (Pages 267 - 286)  
Reports to be presented by Stephen Pearse, Internal Audit Manager.

13. PROGRESS AGAINST THE AUDIT PLAN

(Pages 287 -  
292)

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

14. WORK PLAN REVIEW 2019/20

(Pages 293 -  
298)

The Internal Auditor Manager will update the Committee on any changes to the rolling Work Plan for 2019/20.

15. EXEMPT INFORMATION

The Committee is asked to consider passing the following resolution: -

That under Section 100a (4) of the Local Government Act 1972, the public and accredited representatives of newspapers be excluded from the meeting for the following item of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act by virtue of the paragraph specified against the item.

None.

Note : \*Indicates report is attached for all Members of the Council only and the press (excluding exempt items). Copies of reports can be obtained on request from the Committee Manager).

Note : Members are reminded that if they have any detailed questions would they please inform the Chairman and/or relevant Director in advance of the meeting.

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## AUDIT & GOVERNANCE COMMITTEE

2 July 2019 at 6.00 pm

Present: Councillors Mrs Erskine (Chairman), Mrs Haywood (Vice-Chair), Bennett, Bicknell, Brooks, Clayden, Dendle and Tilbrook

Councillors Bower and Oliver-Redgate were also in attendance for all or part of the meeting.

[Note: The following Councillor was absent from the meeting during the following items of business – Councillor Bicknell Minute 51 to Minute 53 (Part).]

Apologies: Councillor Mrs Madeley who is being substituted by Councillor Chapman and Councillor Mrs Thurston.

### 65. DECLARATIONS OF INTEREST

In view of the nature of the issues to be discussed in respect of Agenda Item 6 (The Independent Remuneration Panel's Eighth Review of the Members' Allowances Scheme) it was recognised that all Members of the Committee had a personal interest in accordance with the Members' Code of Conduct. This did not preclude them from considering the proposals.

### 66. MINUTES

The Minutes of the meeting held on 14 February 2019 were approved by the Committee as a correct record and signed by the Chairman.

### 67. START TIMES

The Committee

RESOLVED

That its start times for meetings during 2019/2020 be 6.00 pm.

### 68. THE INDEPENDENT REMUNERATION PANELS EIGHTH REVIEW OF THE MEMBER'S ALLOWANCES SCHEME

The Chairman welcomed the Independent Remuneration Panel (IRP) to the meeting and invited the Chairman of the Panel, John Thompson, to present the Panel's Eighth Review of the Members' Allowances Scheme.

The Committee Services Manager provided an introduction to her covering report, explaining that the IRP review was originally brought before the Committee at its meeting held on 14 February 19. However, at that meeting the Panel was asked to complete further work on recommendations 8 9 & 20. The covering report highlighted

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the concerns raised at that meeting and provided an overview of the associated financial implications.

Mr Thompson highlighted the main points of change since the 14 February 2019 and that the review had been updated following the District Council Elections.

The main points highlighted were;

- The report was evidenced based following interviews with Councillors, direct comparisons with other Local Authorities (LA's) and comparative data provided by South East Employers.
- Recommendations were broadly cost neutral.
- The annual increase in Basic Allowance had been linked to Officer's pay increases
- The proposal to remove the I.T Allowance in view of the introduction of ModernGov and the supply of iPads to Members.
- The Panel believed the Leader's SRA needed to be set at a level that would attract good candidates to apply for consideration in the future, regardless of any private income
- All SRA's had been calculated based on the post and not the person and the Committee was reminded that they could renounce all or part of any allowance.

The Chairman proposed to take each recommendation in turn to allow full debate. This approach was agreed by the Committee.

**Recommendation (1) – The Basic Allowance remain unchanged at £5,481 per year taking into account the April 2019 increase:**

Recommendation accepted by the Committee.

**Recommendation (2) – The Basic Allowance continues to be increased inline with Officer's pay increases:**

Recommendation accepted by the Committee.

**Recommendation (3) – The Special Responsibility Allowance Payable to the Leader of the Council be increased by £1,804 from £14,196 to £16,122 and there is no change in the Special Responsibility Allowance paid to the Deputy Leader of the Council at £10,400:**

The Committee considered this recommendation in two parts, firstly in respect of the SRA to be paid to the Leader of the Council and the Panels proposals to increase this by £1,804 from £14,196 to £16,122 views were presented for and against this proposal. Some members of the Committee argued that it was not an appropriate time to be considering any increases to

allowances others spoke in support of the increase in view of the full-time nature of the Leader of the Council's role.

Having taken a vote on the recommendation the Panels proposal to increase the SRA for the Leader of the Council was rejected and so the SRA to be paid to the Leader of the Council would remain at £14,196.

Turning the SRA to be paid to the Deputy Leader of the Council the Committee were in agreement that the Panel's recommendation was justified in remaining at £10,400.

**Recommendation (4) – The Special Responsibility Allowance payable to Cabinet Members (Portfolio Holders) remain unchanged at £8,320:**

Recommendation accepted by the Committee.

**Recommendation (5) – The Special Responsibility Allowance payable to the Chairman of the Council and the Vice Chairman of the Council remain unchanged at £8,320 and £2,745 respectively:**

Recommendation accepted by the Committee.

**Recommendation (6) – The Special Responsibility Allowance payable to the Chairman of Development Control Committee be increased by £1,500 from £6,000 to £7,500; that of the Vice Chairman be increased by £520 from £1,980 to £2,500 and there be no change to the Special Responsibility Allowance £750 payable to Members of Development Control:**

The Committee considered this recommendation in two parts, firstly in respect of the Panels proposal to increase the SRA's to be paid to the Chairman and Vice Chairman. Members were quickly in agreement to reject this part of the recommendation. It was agreed that the Chairman and Vice Chairman for the Development Control Committee's SRA's would remain at £6,000 and £1,980.

Turning to the SRA of £750 to be paid to Members of Development Control, the Committee were in agreement that based on the workload of this Committee that the Panel's recommendation was justified in remaining at £750.

**Recommendation (7) – A Special Responsibility Allowance of £300 a year be payable to Members who are Named Substitutes for Members of the Development Control Committee:**

Recommendation accepted by the Committee

**Recommendation (8) – The Special Responsibility Allowance payable to the Chairman and Vice-Chairman of the Licensing and Enforcement Committee be decreased by £2,500 from £4,000 to £1,500 and by £600 from £1,200 to £600 respectively:**

Initial views put forward by the Committee was that this recommendation could not be accepted, and the Panel were questioned on the evidence that sat behind its recommendation. It was felt that in view of the complexity of some meetings/decisions and the level of training required for this role the existing SRA was seen to be adequate. An alternative proposal was put forward to the Committee that the level of SRA for the Chairman be reduced by £1,500 to £2,500 however this was not seconded. Following further discussion, the recommendation from the Panel was accepted by the Committee.

**Recommendation (9) – The Special Responsibility Allowance payable to Members of the Licensing and Enforcement Committee be abolished:**

It was felt that it was relevant for Members of the Licensing Committee to receive an SRA as it was felt their work, especially when sitting on Sub-Committees was over and above what fell within the basic allowance remit and therefore the recommendation to abolish this allowance was rejected. As no alternative proposal was put forward, it was agreed that the level of SRA for being a Member of the Licensing Committee remain at £250 per annum.

**Recommendation (10) – The Special Responsibility Allowance payable to the Chairman and Vice Chairman of the Overview Select Committee remain unchanged at £4,870 and £1,607 respectively:**

Recommendation accepted by the Committee

**Recommendation (11) – The allowance for Co-Opted Witnesses, etc. be increased from £50 to £60 per meeting (up to half a day's duration) they are required to attend:**

Recommendation accepted by the Committee

**Recommendation (12) – The Special Responsibility Allowances payable to the Chairman and Vice Chairman of the Audit and Governance Committee remain unchanged at £3,750 and £1,238:**

Recommendation accepted by the Committee

**Recommendation (13) – The Special Responsibility Allowance payable to the Chairman of Standards Committee be reduced by £500 from £1,500 to £1,000. Payments to Members sitting on Assessment Panels be increased from £50 to £60 per half day meeting:**

Recommendation accepted by the Committee

**Recommendation (14) – The meeting allowance paid to Independent Persons on the Standards Committee be replaced with a payment of £1,440 a year shared equally between the Independent Persons:**

Recommendation accepted by the Committee

**Recommendation (15) – The Special Responsibility Allowance payable to the Leader of the largest Opposition Group remain unchanged at £3,917:**

Recommendation accepted by the Committee

**Recommendation (16) – The leaders of smaller Minority Groups of three or more Members receive an SRA of £100 per Member:**

Recommendation accepted by the Committee

**Recommendation (17) – The Allowance paid to minority groups be reviewed after each change in composition in the Council:**

After discussion the Committee agreed to amend the wording of this recommendation to ensure clarity:

**Recommendation (17) – The Allowance paid to Leaders' of smaller minority groups be reviewed after each change in composition in the Council:**

Amended recommendation accepted by the Committee

**Recommendation (18) – The I.T Allowance be discontinued when ModernGov and the I.T Strategy for Members is fully available to all Members:**

Recommendation accepted by the Committee

**Recommendation (19) – The meeting allowance paid to Co-Opted Members and Witnesses to Committee and Panels should be increased from £50 to £60:**

Recommendation accepted by the Committee

**Recommendation Number 20 - The Carers Allowance of £10 per hour up to a maximum of 20 hours a month be replaced by;**

**A) a Child Care allowance of £10 an hour, limited to £4,000 a year;**

**B) a Dependent Adult allowance up to a maximum of the Home Care rate paid by West Sussex County Council, limited to a maximum of £6,000. And that the Head of Paid Service has the discretion to exceed these limits:**

Recommendation accepted by the Committee

The Chairman suggested to the Committee that recommendations **21 to 24** be consider en bloc. The Committee were in agreement with this approach.

**Recommendation (21) - The list of duties specified in the Regulations be added to the Members Allowance Scheme at Part 9 of the Constitution:**

**Recommendation (22) - Consideration is given as to whether any other duties should be approved for receipt of the Dependent Carer's allowance:**

**Recommendation (23) - The availability of this Allowance and the procedure for claiming it be more visible:**

**Recommendation (24) - Councillors will be entitled to request maternity, paternity and adoption arrangements:**

Recommendation's (21), (22), (23) and (24) accepted by the Committee

**Recommendation (25) - No change in the arrangements that allow Town and Parish Councils to pay up to 10% of the Arun DC Basic Allowance to their Members:**

Recommendation accepted by the Committee

**Recommendation (26) - Special Responsibility One-off payments be increased from £50 to £60 a half day for one-off activities, for example, intensive projects subject to the approval of the Head of Paid Service on the advice of the Group Head of Advice and Monitoring Officer:**

Recommendation accepted by the Committee

**Recommendation (27) - All remunerations received by Members, Co-Opted Members, Independent Persons and so on to be linked annually to Officers' pay and allowances with effect from 1 April 2020:**

Recommendation accepted by the Committee

**Recommendation (28) - The arrangements for Travel and Subsistence remain unchanged and the rates and list of approved duties be published in Section 9 of the Arun DC Constitution:**

Recommendation accepted by the Committee

**Recommendation (29) - The arrangements for the payment of more than one SRA remain unchanged:**

Recommendation accepted by the Committee

**Recommendation (30) - If the Chairman of the Council is absent for a continuous period of two months or more their SRA can be paid instead to the Vice-Chairman if they take on the responsibilities during that period of absence.**

Recommendation accepted by the Committee

**Recommendation (31) - Include in Arun DC's Members' Allowance Scheme provision for the Suspension of Allowances of the Local Authority Members' Allowances (England) Regulations 2003, in that allowances be withheld if a Member is suspended or partially suspended:**

Recommendation accepted by the Committee

**Recommendation (32) - Move the next review to after the municipal elections in 2023 or sooner if there is a change in municipal governance arrangements:**

Recommendation accepted by the Committee

**Recommendation (33) - The new Allowances Scheme is effective from 7<sup>th</sup> May 2019:**

Recommendation accepted by the Committee

The Committee gave their thanks to the Panel for their hard work on this report, in particular for going away and re-looking at the recommendations after the meeting on 14 February 2019. The Panel also extended their thanks to Officers and Members who helped and supported the Panel to ensure that they completed their report within the time constraints requested.

The Committee then

RECOMMEND TO FULL COUNCIL

That the report of the Independent Remuneration Panel on its eighth review of the Member's Allowances Scheme be approved subject to the amendments made at the meeting.

69. CHAIRMAN'S ANNUAL REPORT TO COUNCIL 2018/19

The Committee received the Chairman's Annual Report to the Council for 2018/19 and having supported its contents,

RECOMMEND TO FULL COUNCIL

That the Chairman's Annual Report for 2018/19 be approved.

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Councillor Brooks gave his thanks on behalf of the previous Committee Members to Councillor Chapman and Mrs Oakley the previous Chairman and Vice Chairman for their hard work and commitment to the Committee over the last year.

70. ANNUAL UPDATE ON THE USE OF RIPA POWERS

As required by the Council's Constitution, the Committee noted that no activity had been authorised under the Regulation of Investigatory Powers Act (RIPA) 2010 in the 2018/19 financial year.

71. FUTURE WORK PLAN 2019/20

The Committee received a draft work plan for 2019/2020 from the Internal Manager which Members were asked to approve.

The Committee

RESOLVED

That the Committee's future work plan for 2019/2020 be approved.

(The meeting concluded at 7.30 pm)





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3 April 2019

Please ask for:  
Stephen Pearce  
Corporate Support  
37561

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

Dear Mr Suter,

Thank you for your letter dated 18<sup>th</sup> March 2019 regarding the International Standards on Auditing (ISAs) requirement that those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

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

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

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

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

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

- *identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist:*

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

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

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

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

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

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

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

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

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

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

Members are also required to comply with a Code of Conduct and make a declaration of interests. These arrangements were emphasised as part of the 'induction' process for all

Members following the District Council elections in May 2015 and are overseen by the Council's Standards Committee. Member allowances and compliance with 'related party transaction' disclosure requirements are considered by external audit as part of their annual audit work. All Members were required to undertake appropriate training following the May 2015 District elections and Members elected later, as part of their induction processes. (The Council is in the process of setting up induction processes, etc. for the new Council after the May 2019 District Elections).

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

The Council's published Constitution contains details of the Officer Scheme of Delegation and Financial Rules / Standing Orders. (The Constitution is currently subject to review by the Group Head of Council Advice & Monitoring Officer and the Constitution Working Party to ensure that it is up-to-date, relevant and reflects the Council's current priorities and management structure, with changes being agreed by the Members' Constitution Working Party and approved by Full Council). It should be noted that both the Chairman and Vice Chairman of the Audit & Governance Committee served on the Constitution Working Party in 2018/19.

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

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

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

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

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

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

The Audit & Governance Committee has responsibility for the counter-fraud culture within the Council (as assigned within the Constitution). It meets on a regular scheduled basis, although there is provision within its terms of reference to meet more frequently should it be deemed necessary. On an annual basis, the Committee approves the Annual Internal Audit

Plan, which is risk-based and includes consideration of potential fraud risk areas. Relevant information is provided to the Committee on the potential fraud areas in Local Authorities and they will ensure that such risks (and any specific concerns) are considered by Internal Audit for inclusion in the Annual Plan.

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

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

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

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

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

The Risk Management Policy Statement & Strategy was reviewed, updated and presented to the Committee in December 2017 and the Strategic Risk Register in November 2018 / February 2019..

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

- ***breaches of, or deficiencies in, internal control; and***
- ***actual, suspected or alleged frauds during 2018/19:***

Apart from the items raised as part of Internal Audit reviews and / or other reports presented, the Committee is unaware of any breaches of internal control in 2018/19. Although there is ongoing fraud-related work, there are currently no investigations into actual, suspected or alleged frauds advised as being progressed by Internal Audit.

The Committee is aware that there will have been ongoing investigations / legal action in respect a number of cases involving housing tenancy issues. An annual summary of the number of cases is included in the annual Counter Fraud Report presented to the Committee.

However, Committee Members may also become aware of internal control issues through membership other Committees, Working Groups and reports to Full Council and this is the case in 2018/19 in respect of the Health & Safety issues affecting the Council's housing stock

which resulted in a regulatory notice in August 2018 from the Regulator of Social Housing (RSH).

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

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

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

All Members received on the progress of the Council's '2020 Vision – Working together for a better future', which is now largely completed. As part of this, the Council considered the provision of essential services in the future and requirements for maximising income / substantially reducing costs going forwards, including the potential for sharing services with other local authorities, outsourcing, etc. Lack of funding / reduction in resources in the future will lead to an increase in management pressure and this will be kept in view.

***(5) How does the Audit & Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2018/19:***

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

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

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

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

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

On an annual basis, the Audit & Governance Committee is provided with a detailed walkthrough of the Accounts by the Financial Services Manager. The Committee also receives a report to provide its 'Approval of the Accounting Policies' and resolved in February 2019 that these were valid and could be applied to the Statement of Accounts for 2018/19.

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

This borrowing was a Government requirement, applied to all affected Councils and was supported by a Housing Revenue Account (HAR) Business Plan, which is subject to annual review. The Committee is aware that there has been a significant negative impact on the HRA caused by among other things:-

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

Further central Government changes will inevitably affect the HRA (albeit that this remains ring-fenced from the General Fund).

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

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

***(8) What does the Audit & Governance Committee consider to be the related parties that are significant to the Council and what is its understanding of the relationships and transactions with these related parties:***

The Committee considers the Council's Annual Accounts which include information on Related Parties (defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council) and any material transactions that have taken place during the financial year.

Apart from:-

- Central Government, which provides funding for the Council in the form of grants, etc. to which conditions may be attached and enacts legislation directing the Council in how it should act in certain of its relationships with residents (e.g. in respect of Council Tax, benefits payments, etc.)
- Other public bodies, which the Council is required to collect and submit precepts and levies for but has no controlling influence over,

the Committee is unaware of any parties or transactions of significance to the Council within the definition.

***(9) Does the Audit & Governance Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns:***

The Committee has no concerns regarding relationships or transactions with related parties. (but understands a separate management response is to be provided by the Group Head of Corporate Support, in consultation with the Financial Services Manager, covering this).

Yours sincerely

A handwritten signature in dark ink, appearing to read 'T Chapman', written in a cursive style.

Cllr Terence Chapman,  
Audit & Governance Committee Chairman

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

25 April 2019

Ref: Fee Letter/19-20

Direct line: 023 8038 2159

Email: [KSuter@uk.ey.com](mailto:KSuter@uk.ey.com)

Dear Nigel

## Annual Audit 2019/20

We are writing to confirm the audit that we propose to undertake for the 2019/20 financial year at Arun District Council.

From 2018/19, local government and police bodies have been responsible for making their own arrangements for the audit of the accounts and reporting on the housing benefit subsidy claim.

The Secretary of State for Housing, Communities and Local Government has specified Public Sector Audit Appointments (PSAA) as an appointing person under provisions of the Local Audit and Accountability Act 2014. PSAA has appointed auditors for bodies that opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23.

The appointment of an auditor to report on the Council's housing benefit subsidy claim is no longer covered by the PSAA appointment.

### Indicative audit fee

For the 2019/20 financial year, PSAA has set the scale fee for each opted in body. Following consultation on its Work Programme and Scale of Fees, PSAA has maintained scale audit fees at the same level as for 2018/19, unless there are specific circumstances which require otherwise.

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

The audit fee covers the:

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

Our final fee will include the impact of additional risks and/or circumstances that are out of the scope of the scale fee, for example:

- Additional work performed on asset valuations, including the involvement of our valuation specialists;
- Additional work performed on the valuation of the net pension liability, including the involvement of our pension specialists; and
- Additional work arising from the implementation of IFRS 16 Leases.

At this stage, the indicative fee is set at the scale fee.

This indicative fee is based on certain assumptions, including:

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

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

As we have not yet completed our audit for 2018/19, our audit planning process for 2019/20 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

### Summary of fees

	Indicative fee 2019/20 £	Planned fee 2018/19 £	Actual fee 2017/18 £
Scale Fee	43,969	43,969	57,103
Restatement of prior year figures	-	-	979
<b>Total Code audit fee</b>	<b>43,969</b>	<b>43,969</b>	<b>58,082</b>
Reporting on grants and claims	10,379	10,379	10,100

- The 2017/18 Housing Benefit Certification fee includes £1,770 in respect of additional work required to review and capture extended testing undertaken due to errors identified during our testing. This is still subject to approval by the PSAA.

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

### **Billing**

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

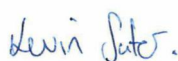
### **Audit plan**

Our plan is expected to be issued in November, 2019. This will communicate any significant financial statement and value for money risks identified, planned audit procedures to respond to those risks and the estimated fee implications of these additional procedures. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Group Head of Corporate Support and communicate the revised fee and the matters giving rise to any adjustments to the scale fee in our Audit Results Report which we will present to Audit and Governance Committee.

For a high level overview of our approach and further information on how we intend to work with you under the PSAA contract, please refer to our leaflet 'EY working with you' which is enclosed.

We remain committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me, or Janet Dawson as our Government and Public Sector Assurance Leader at [jdawson1@uk.ey.com](mailto:jdawson1@uk.ey.com). If you prefer an alternative route, please contact Steve Varley, our Managing Partner, by writing to him at 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely



Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

cc. Alan Peach, Group Head of Corporate Support

Councillor Terence Chapman, Chair of the Audit and Governance Committee

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# Arun District Council Audit results report

Year ended 31 March 2019

July 2019

Page 21



Building a better  
working world

Agenda Item 7



22 July 2019

Dear Audit and Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Arun District Council for 2018/19.

We are progressing our audit of Arun District Council (the Authority) for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, by the accounts publication date of 31 July 2019. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit and Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 30 July 2019.

Yours faithfully

Kevin Suter

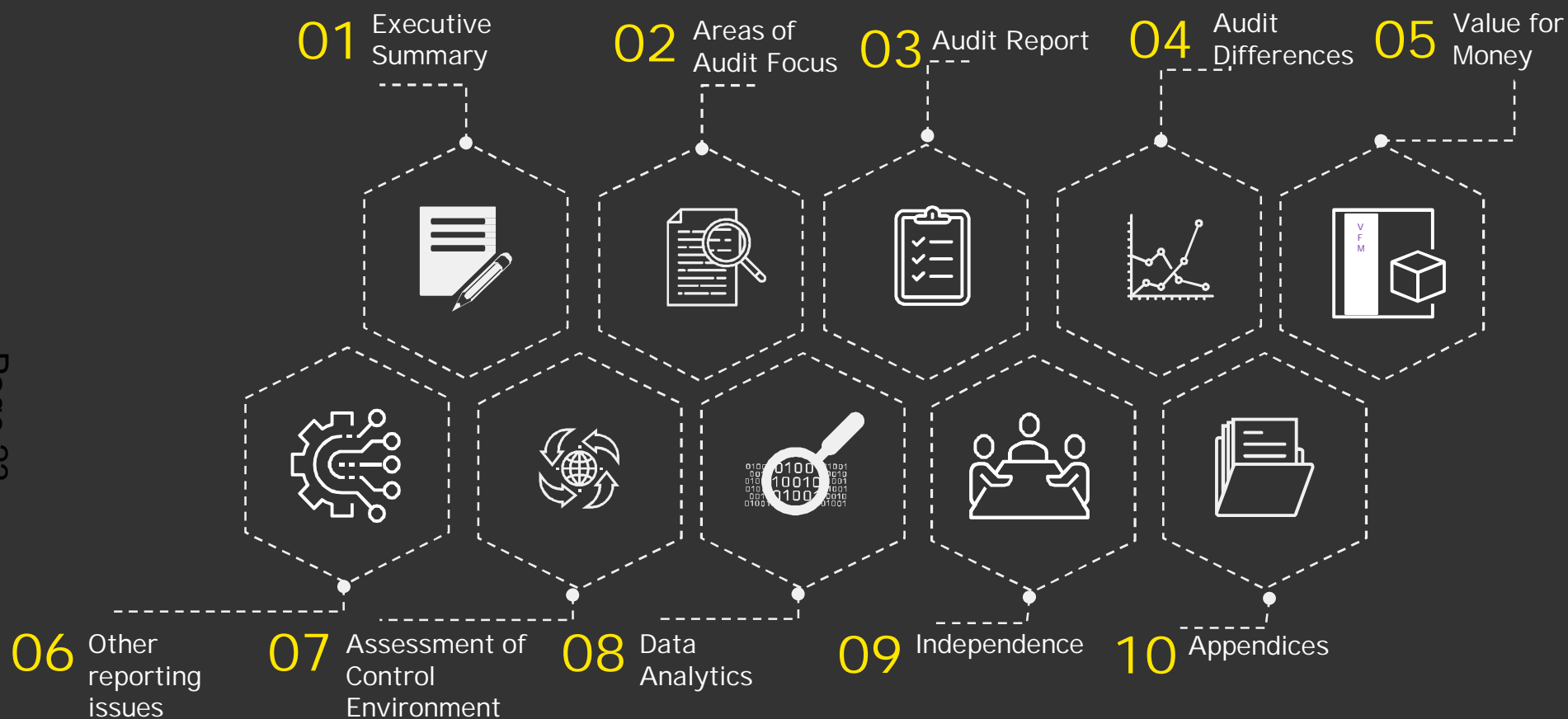
Associate Partner

For and on behalf of Ernst & Young LLP

Encl



# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)).

This 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 (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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



# 01 Executive Summary





# Executive Summary

## Scope update

In our Audit Planning Report presented at the 14 February 2019 Audit and 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 exceptions:

- Changes in materiality. In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.825m. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross revenue expenditure, we have updated our overall materiality assessment to £2.07m. This results in updated performance materiality, at 75% of overall materiality, of £1.553m, and an updated threshold for reporting misstatements of £0.104m.
- Changes in internal reporting structure. The Council restated its net cost of services comparative figures on the Comprehensive Income and Expenditure Statement and also the Expenditure and Funding Analysis note. The restatement changes the way that costs are analysed segmentally between Corporate Support Group and Residential Services in relation to Revenue and Benefits. The total value of net service costs remained unchanged. There were no implications for the General Fund from these changes. The Balance Sheet and Cash Flow Statement were also unaffected. We undertook the following additional procedures to confirm that the restated figures were accurate:
  - Reviewed the Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis note, to ensure disclosures are in line with the CIPFA Code
  - Reviewed the analysis of how these figures were derived, how the ledger system had been re-mapped to reflect the Council's organisational structure and how overheads were apportioned across the service areas reported
  - Agreed the restated comparative figures back to the Council's segmental analysis and supporting working papers

## Status of the audit

We have substantially completed our audit of Arun District Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding matters we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Final pension liability procedures
- Testing and review of Provisions, Collection Fund, Housing Revenue Account, Expenditure Funding Analysis, financial instruments and exit packages
- Housing Benefit income and expenditure
- Some disclosures
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion.



## Executive Summary

### Audit differences

At the time of writing there were no unadjusted audit differences arising from our audit.

We have identified audit differences relating to the use of the appeals provision and appeals provision adjustments within the Collection Fund. Details can be found in Section 4 Audit Differences .

Until our work is complete, further amendments may arise. We will update the Committee should any further adjustments arise from our remaining work.

### Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Arun District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Governance Committee.

### Control observations

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 and which is unknown to you.



## Executive Summary

### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified one significant risks over sustainable resource deployment.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. Details can be found in Section 5 Value for Money.

### 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 have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. However as the Council is below the testing threshold set by the NAO we do not expect to have any issues to report.

We have no other matters to report.

### Independence

We have no matters to highlight on Independence.



## 02 Areas of Audit Focus





# Areas of Audit Focus

## Significant risk

### Risk of fraud in revenue recognition – capitalising 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.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This could result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

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#### What judgements are we focused on?

We focused on the following:

- Understanding the controls relevant to this significant risk;
- For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support these additions and expenditure. We reviewed the sample selected against the definition of capital expenditure in IAS 16; and
- Whether management were inappropriately processing journals that transferred amounts from revenue to capital.

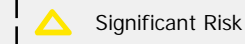
#### What did we do?

- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Amended our sample sizes when testing PPE additions to reflect the existence of this risk.
- Agreed samples to source documentation to ensure that any capital/revenue split was reasonable; and
- Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.

#### What are our conclusions?

Based on the work completed at the time of drafting this report:

- We have not identified any issues with the classification of capital expenditure.
- We have not identified any instances of inappropriate judgements being applied.





# Areas of Audit Focus

## Significant risk

### Misstatements due to fraud or error

#### What is the risk?

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?

We focused on the following:

- Understanding the risks of fraud and the controls put in place to address those risks by management and how the Audit & Governance Committee oversees management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.

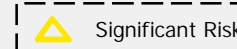
#### What did we do?

- Wrote to the s151 officer, Chair of the Audit and Governance Committee and the Chief Internal Auditor in this regard and reviewed their responses;
- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias; and
- Evaluated the business rationale for any significant unusual transactions.

#### What are our conclusions?

Based on the work completed at the time of drafting this report:

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied, or of any management bias.
- We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.





# Areas of Audit Focus

## Other financial statement risk

### Valuation of land and buildings

#### What is the risk?

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

#### What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the valuer including their professional capabilities; and
- The reasonableness of the underlying assumptions used by the Council's expert valuer.

#### What did we do?

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Reviewed the relationship of the valuer to the Council;
- Challenged the assumptions used by the Council's valuers by reference to external evidence;
- Considered 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;
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated;
- Sample tested key asset information used by the valuers in performing their valuation;
- We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

#### What are our conclusions?

- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.
- We have reviewed the classification and valuation methods used and identified no issues.
- We have reviewed assets not subject to valuation in 2018/19 and confirmed that the remaining asset base was not materially misstated.
- We reviewed the scope and relationship of the valuer to the Council and identified no issues.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not identify any issues.





# Areas of Audit Focus

## Other financial statement risk

### Pension Liability valuation

#### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £27.581m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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#### What judgements are we focused on?

We focused on the following:

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

#### What did we do?

- Liaised with the auditors of West Sussex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Arun District Council;
- Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered relevant reviews by the EY actuarial team;
- Reviewed the actuaries estimates to outturn information where available; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

#### What are our conclusions?

Our work in this area is substantially complete.

We obtained assurances from the auditors of West Sussex Pension Fund that the information supplied to the actuary in relation to Arun District Council was accurate and complete.

We have assessed and are satisfied with the competency and objectivity of the Council's actuaries: Hymans Robertson.

We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.

Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.

We identified an adjusting event after reporting date relating to the pension fund liability, the effect of which increased past service cost and gross liability. The Council contacted the actuary for an updated IAS 19 report and have amended the accounts. In processing these amendments, the net pension liability in the accounts was also updated for other actuarial adjustments in relation to guaranteed minimum pension indexation and the fair value of plan assets.





# Areas of Audit Focus

## Other areas of audit focus

### NDR Appeals Valuation

#### What is the risk?

The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements.

In addition, in previous years we have identified errors above our audit differences threshold.

#### What judgements are we focused on?

We focused on the following:

- The reasonableness of the assumptions to appeals made to the 2005 and 2010 ratings lists;
- The reasonableness of the assumptions made to any appeals lodged against the 2017 ratings list, and the Council's assumptions for appeals as yet unlogged.

#### What did we do?

- Reviewed the calculation of the provision for accuracy;
- Ensured calculation of the provision included consideration of unlogged appeals;
- Considered the relevance and reasonableness of assumptions, methods and models used by the management specialist; and
- Performed post year-end review of appeals settled to determine whether the revised rateable value and effective date of the appeal are in line with the provision

#### What are our conclusions?

We have reviewed the calculation of the provision and confirmed that the calculation was accurate. However, the amounts were transferred incorrectly from the working paper to the Collection Fund statement. This was subsequently corrected by management.

We have confirmed that the provision considered unlogged appeals.

We reviewed the assumptions, methods and models used by management's specialist. We identified no issues.

Our post year-end review of appeals settled identified no issues.



## Areas of Audit Focus

### Other financial statement risk

#### New accounting standards – IFRS 9

##### What is the risk?

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and changed how financial assets are classified and measured, how the impairment of financial assets are calculated, and the disclosure requirements for financial assets.

##### What did we do?

- Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered the classification and valuation of financial instrument assets;
- Reviewed the new expected credit loss model impairment calculations for assets; and
  - Checked additional disclosure requirements

##### What are our conclusions?

- We have reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues;
- Financial instruments were appropriately classified and valued in line with the requirements of IFRS 9. However, the terminology used in the accounts was not updated for the investment in the Local Authority Property Fund. This was subsequently corrected by management;
- We have reviewed the new expected credit loss model impairment calculations for assets and identified no issues; and
- Additional disclosure requirements were in line with the requirements of IFRS 9.



## Areas of Audit Focus

### Other financial statement risk

#### New accounting standards – IFRS 15

##### What is the risk?

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

Where the standard is relevant, the recognition of revenue will change and new disclosure requirements introduced

##### What did we do?

Page 35

Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.

Considered application to the authority's revenue streams, and where the standard was relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and

- Checked additional disclosure requirements.

##### What are our conclusions?

- We have reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues;
- For relevant revenue streams we confirmed that revenue was recognised in line with the requirements of IFRS 15; and
- Additional disclosure requirements were in line with the requirements of IFRS 15.



# Areas of Audit Focus



## Other matters

### Assessment of new Accounting Standards

- IFRS 16 Leases: Implementation date for IFRS 16 is 1 April 2020. In your view the impact of the introduction of IFRS 16 and its amendments is not material as the Council is not party to significant operating leases as lessee. In our view, given the immaterial balance of operating leases as lessee in the accounts, it is unlikely that the future implementation of IFRS 16 will have a material impact on the single entity financial statements of the Council.
- Lessor arrangements remain unchanged under IFRS 16.



## 03 Audit Report



# Audit Report

## Draft audit report

### Our proposed audit report

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

##### Opinion

We have audited the financial statements of Arun District Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- The related notes 1 to 39 and the Expenditure and Funding Analysis,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Housing Revenue Account Property, Plant and Equipment, the Housing Revenue Account Intangible Assets, the Housing Revenue Account Assets Held for Sale, the notes to the Housing Revenue Account, and
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Arun District Council as at 31 March 2019 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 2018/19

##### 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 authority 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Group Head of Corporate Support's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Group Head of Corporate Support has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The other information comprises the information included in the Annual Statement of Accounts for the year 2018/19, other than the financial statements and our auditor's report thereon. The Group Head of Corporate Support is responsible for the other information.

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

## Our proposed audit report

In connection with our audit of 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 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 or a material misstatement of the other information. 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.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Arun District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Group Head of Corporate Support

As explained more fully in the Statement of Responsibilities set out on page 16, the Group Head of Corporate Support is responsible for the preparation of the Annual Statement of Accounts for the year 2018/19, 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Group Head of Corporate Support is responsible for assessing the Authority'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 Authority either intends to cease operations, or have no realistic alternative but to do so.

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



# Audit Report

## Our proposed audit report

### 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.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

### Certificate

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

### 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 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 differences

We highlight the following misstatements greater than £0.104m identified during the course of our audit which management are in the process of correcting:

- A misclassification of £4.198m between the use of appeals provision and appeals provision adjustments within total expenditure in the Collection Fund. The amounts were manually captured incorrectly in the Collection Fund. However, the net effect was zero; and
- Some minor misstatements in disclosures

We will also update the Committee if there are any further issues arising from our incomplete audit procedures.

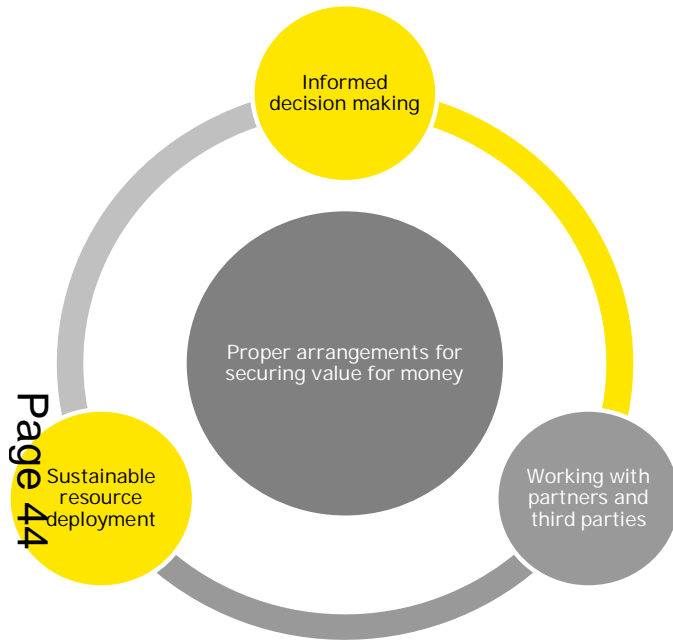
At the time of writing our report there were no uncorrected misstatements.





05

## Value for Money Risks



## Background

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

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

We identified one significant risk around these criteria. We are satisfied that the Authority has adequate arrangements in place in regard to financial resilience over the medium term.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What was the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Financial pressures in the public sector continue to mount. As a result of these pressures there is increased focus and wider public interest in the financial resilience of Local Government. The Council does not have many ongoing developments or income generation schemes integrated into its revenue and capital budgets which could have a significant impact on the medium term finances.</p> <p>The latest financial forecast has been prepared against a continuing backdrop of unprecedented uncertainty over Government funding and the economy. The Medium Term Financial Strategy (MTFS) uses the most recent information available to forecast the Council's income and expenditure over the next 5 years and the situation has deteriorated since the prior year principally due to a forecast that income from both New Homes Bonus (NHB) and business rates will reduce significantly. It is noted that the forecast is heavily dependent on both the future NHB scheme and the methodology that Central Government will use to reset the Business Rates baseline and that management aim to fine tune this assessment as more information becomes available. However, this remains a concern for the Council from a financial resilience perspective over the medium term.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We have reviewed the Council's outturn for 2018/19 to assess the reasonableness of the assumptions and performance, and reviewed the assumptions in the 2019/20 budget and 5 year Finance Strategy.</p> <p>The 2018/19 outturn was a £0.487m favourable variance against the final budget, with no significant accumulating overspends, and additions made to specific earmarked reserves.</p> <p>Our review of the Council's 2019/20 budget and 5 year Finance Strategy concluded that the assumptions used appear reasonable. The 2019/20 budget is balanced. Beyond that period there are planned withdrawals from reserves, although the Council stays above its minimum General Fund balance until 2022/23.</p> <p>We reviewed the progress made with and achievability of efficiency and savings plans, including the purchase of the commercial property in Bognor Regis.</p> <p>Savings identified in prior years have been removed from the base budget which has reduced the net service expenditure. No savings have been identified in the MTFS period but the commercial property is forecast to produce annual income streams of £150k per annum. We have reviewed the assumptions used and they appear to be reasonable.</p> <p>The Council officers are clearly aware of the uncertainty and risks to future plans, including around the Fair Funding Review and future Business Rates.</p> <p>There is a strategy in place to review opportunities for further savings, efficiencies and income growth, to be reviewed through the autumn 2019 and inform the 2020/21 budget and MTFS update.</p> <p>We have concluded the Council remains resilient in the short to medium term, but it needs to remain focused on managing its level of reserves and reducing the dependency of the annual budget on withdrawing balances from those reserves. The reserves can only be spent once.</p>





## 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 Annual Statement of Accounts 2018/19 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 Annual Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

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

### Whole of Government Accounts

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

We are currently concluding our work in this area, but anticipate have no matters to report as the Council is below the £500m threshold for undertaking detailed audit procedures.

## Other reporting issues

### 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 Authority 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 Authority, 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 Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- Going concern; and
- Consideration of laws and regulations.

We have no matters to report in respect of the above matters.

As at 22 July one investment confirmation is outstanding.





07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

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

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.





# 08 Data Analytics





# Use of Data Analytics in the Audit

## ► 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 2018/19, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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 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.

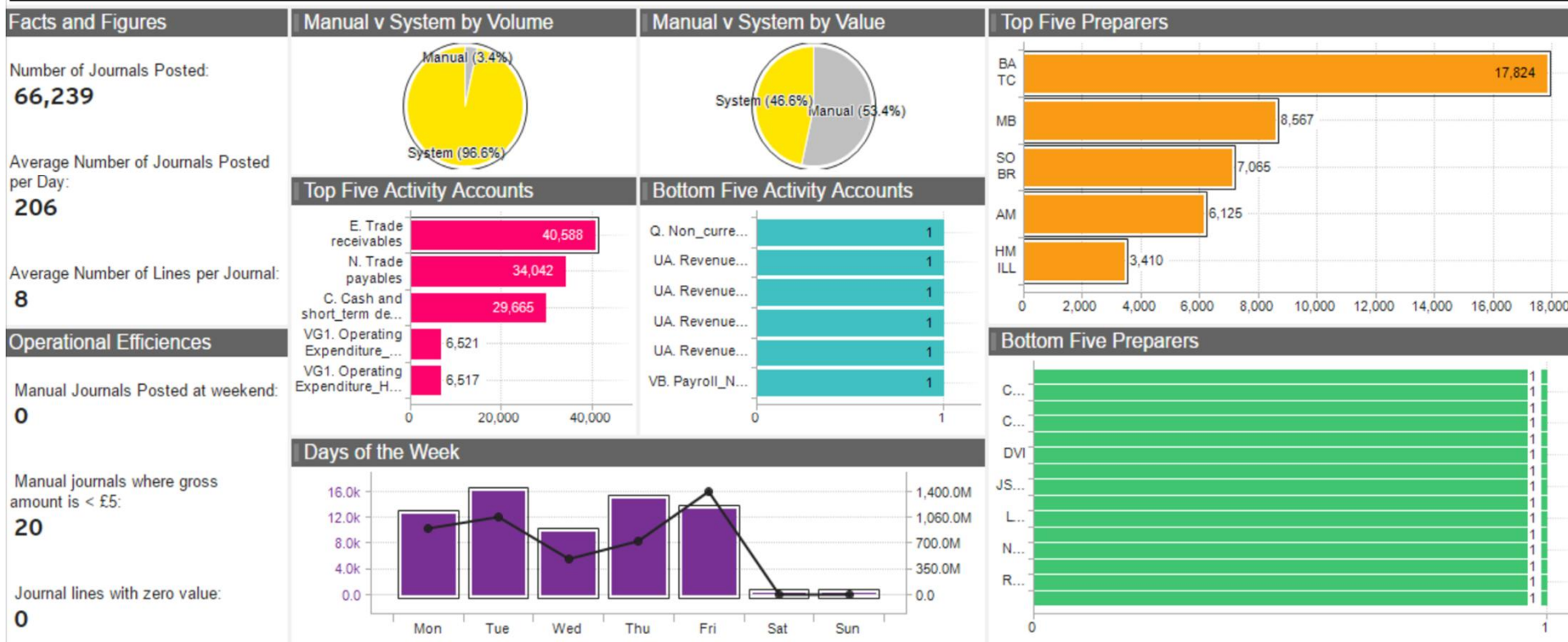


## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples. We shared this information with management to provide additional insight and value from our audit procedures.

### EY Helix - GLASS: Journal Entry Data Insights - 19 Arun District Council - P1 to P12 - 3/31/2019





## Journal Entry Testing

### What is the risk?

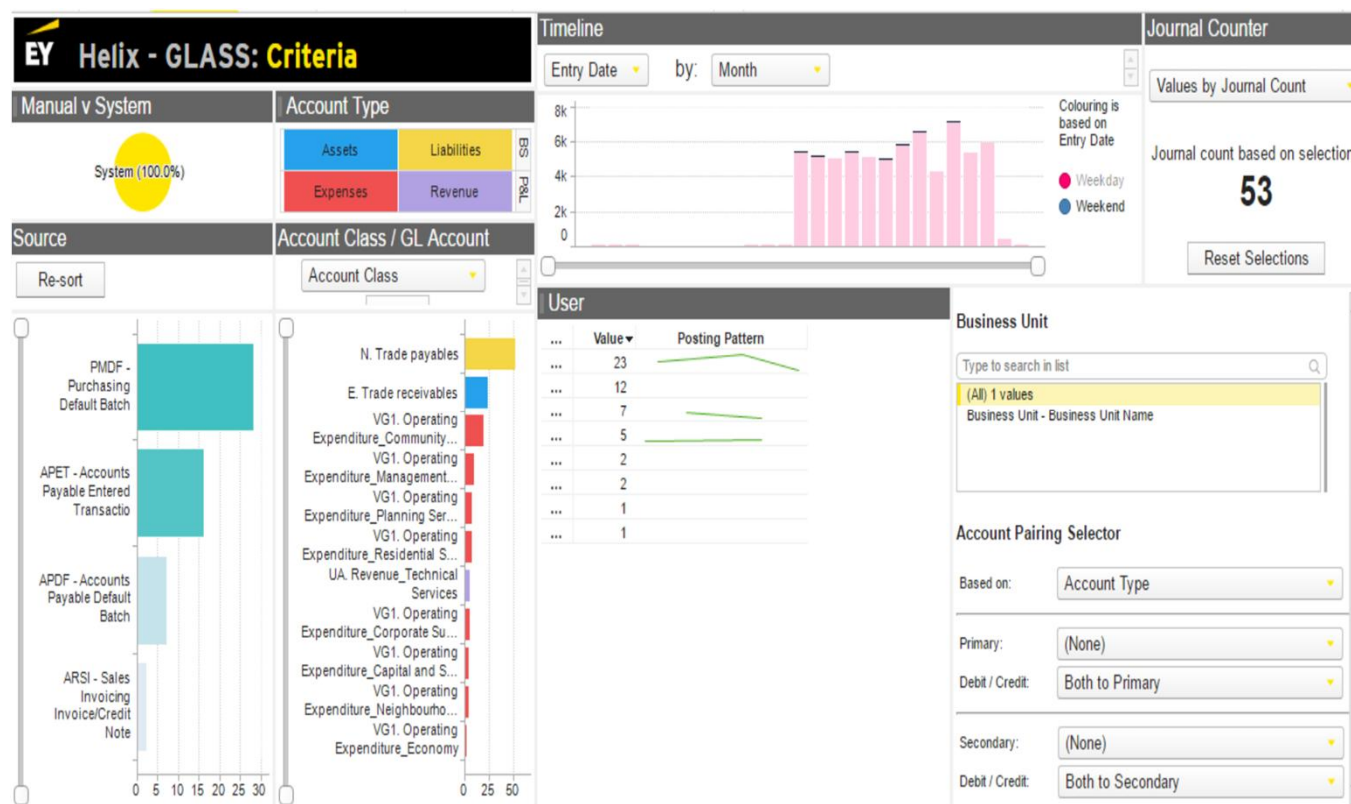
In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2019

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

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### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

The graphic shows journals posted on weekends which was one of our criteria considered for unusual journals

### What are our conclusions?

We isolated a sub set of journals for further investigation and obtain supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.





# 9

# Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 10 January 2019.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Governance Committee on 30 July 2019.

We confirm we have not undertaken non-audit work outside the NAO Code requirements.



# Independence



## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors 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 2018 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

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the table below has been provided on a contingent fee basis.

As at the date of this report, we are contracted to provide audit services for a further four years from 1 April 2019. In addition, the Authority has agreed to our proposal to provide the Housing Benefit Subsidy Assurance services for the same period.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	TBC*	43,969	43,969	58,082
Non-audit work – Grant claims	TBC*	10,379	10,379	10,100
Total non-audit services	TBC*	10,379	10,379	10,100
Total fees	TBC*	54,348	54,348	68,182

\* The final fee for our Code work will be confirmed upon completion by the 31<sup>st</sup> July deadline. We will report the final fee to the Audit and Governance Committee in our Annual Audit Letter.



# 10 Appendices

## Appendix A

# Required communications with the Audit & Governance Committee

There are certain communications that we must provide to the Audit Committees of UK clients. 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 and 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.	10 January 2019 Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	10 January 2019 Audit planning report
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>	10 January 2019 Audit planning report



## Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	July 2019 Audit results report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	July 2019 Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	<p>30 July 2019</p> <p>To be confirmed with letter of representation at Audit and Governance Committee meeting</p>
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</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 Authority, 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 and Governance Committee responsibility.</li> </ul>	<p>July 2019 Audit results report</p> <p>We have no matters to report</p>

## 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 Authority'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 Authority</li> </ul>	<p>July 2019 Audit results report</p> <p>We have no matters to report</p>
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> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>10 January 2019 Audit planning report</p> <p>July 2019 Audit results report</p>

## Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
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>	July 2019 Audit results report We have no matters to report
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 and 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>	July 2019 Audit results report We have no matters to report
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>	July 2019 Audit results report We have no matters to report

## Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
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>	July 2019 Audit results report
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>	July 2019 Audit results report We have no matters to report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	July 2019 Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	10 January 2019 Audit planning report July 2019 Audit results report



# Management representation letter

## Management Rep Letter

To be prepared on Arun District Council's letterhead

XX July 2019

Ernst & Young  
Wessex House,  
19 Threefield Lane,  
Southampton  
SO14 3QB United Kingdom

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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 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Arun District Council as of 31 March 2019 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 2018/19.

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

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

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
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 and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

# Management representation letter

## Management Rep Letter

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 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]*.
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.

# Management representation letter

## Management Rep Letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### 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. Subsequent Events

1. Other than the events described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

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

### G. Comparative information – corresponding financial information

1. The figures above the line for 'Cost of Services' have been restated for the 2017/18 comparator year to reflect the Council's revised portfolio structure between Corporate Support Group and Residential Services.
2. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

# Management representation letter

## Management Rep Letter

### H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

### I. Reserves

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

### J. Use of the Work of a Specialist – Actuary

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of the net 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.

### K. Use of the Work of a Specialist – Property valuers

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investment property and operational land and buildings 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. Estimate – NNDR appeals and other provisions

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of provisions (including the NNDR appeals provision) appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

# Management representation letter

## Management Rep Letter

### M. Estimates - Valuation of Council land and buildings estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the valuation of land and buildings estimate appropriately reflect our intent and ability to use and maintain these assets on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events.

### N. Estimate – Pensions Valuation Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the pensions valuation estimate appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### O. 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,

\_\_\_\_\_  
Alan Peach – Group Head of Corporate Support (S151 Officer)

\_\_\_\_\_  
Councillor Inna Erskine - Chair of the Audit and Governance Committee

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ED None

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## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT AND GOVERNANCE COMMITTEE ON 30 July 2019

#### PART A: REPORT

**SUBJECT:** Annual Statement of Accounts 2018/19 and Letter of Representation

**REPORT AUTHOR:** Carolin Martlew, Financial Services Manager

**DATE:** July 2019

**EXTN:** 37568

**PORTFOLIO AREA:** Corporate Resources

#### EXECUTIVE SUMMARY:

This report provides information about the audit of the Council's 2018/19 Statement of Accounts (accounts) and recommends the approval of the 2018/19 accounts and the Letter of Representation on behalf of the Council.

#### RECOMMENDATIONS:

##### RECOMMENDATIONS

The Committee is requested to:

- i. Note the findings of the EY Audit Results Report (previous item on the agenda);
- ii. Approve the Letter of Representation on behalf of the Council (copy appedix1); and
- iii. Approve the Statement of Accounts for the financial year ended 31 March 2019 which will be signed by the Chairman of the Committee (Appendix 2).

#### 1. BACKGROUND:

1.1 Due to the late scheduling of the audit (starting 3<sup>rd</sup> July 2019) the Audit will not be completed until the meeting of the Committee on 30<sup>th</sup> July 2019. The Draft Statement of Accounts 2018/19 (issued by the Group Head of Corporate Support on 31<sup>st</sup> May 2018) has been updated for a further Pension Report provided by the Actuaries, Hyman Roberts (as mentioned in the preceding Audit results report). The Council's estimated pension fund deficit was altered from £27.581m to £27.456m (Appendix 2: Note 24, page 73). The Accounts were also updated for the presentation errors as outlined in the EY Audit results report. The latest statement of Accounts has been included as appendix 2.

1.2 The committee will be updated verbally at the meeting with any significant changes to the Accounts.

- 1.3 The public inspection period commenced on 3<sup>rd</sup> June and finished on 15<sup>th</sup> July 2019. At this time we are not aware of any objections raised with EY.
- 1.4 This report was preceded by the Audit Results Report issued by EY.
- 1.5 The audited accounts, together with the auditor's opinion, are required to be published by 31<sup>st</sup> July 2019.
- 1.6 The Letter of Representation is included as appendix 1.

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

### **Overview of the Financial Statements**

- 2.1 The Statement of Accounts summarises the Council's financial transactions for 2018/19 year and its financial position at 31 March 2019. 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.
- 2.2 The meeting will focus on the core financial statements and the Supplementary financial Statements. The core financial statements are comprised of the:
- Comprehensive Income and Expenditure Statement
  - Movement in Reserves Statement
  - Balance Sheet
  - Cash Flow Statement
- 2.3 The Supplementary Financial Statements are comprised of the:
- Housing Revenue Account and notes; and
  - Collection Fund Statement and notes.

### **Audit of the Statement of Accounts 2018/19**

- 2.4 The Committee will be updated at the meeting in relation to the key issues identified by the audit.
- 2.5 Members are requested to note the content of the Audit Results Report (previous item on the agenda).
- 2.6 Members are requested to approve the Letter of Representation (attached as appendix 1).

## **3. OPTIONS:**

n/a

## **4. CONSULTATION:**

Has consultation been undertaken with:	<b>YES</b>	<b>NO</b>
Relevant Town/Parish Council		✓



Relevant District Ward Councillors		✓
Other groups/persons (please specify)		
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	<b>YES</b>	<b>NO</b>
Financial	✓	
Legal	✓	
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		
<b>6. IMPLICATIONS:</b> The Letter of Representation and the Statement of Accounts 2018/19 are required to be approved by the Audit and Governance Committee in time for the statutory deadline of 31 <sup>st</sup> July 2019.		
<b>7. REASON FOR THE DECISION:</b> To approve the Statement of Accounts by the statutory deadline of 31 July 2019.		
<b>8. BACKGROUND PAPERS:</b> None		

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# **Arun District Council**

## **Annual Statement of Accounts for the year 2018/19**

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

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## Narrative Report

### Introduction to the Arun district

Arun District is the largest district in West Sussex in terms of population (158,657 mid-year 2017) and the second largest in terms of Council Tax Base (60,402 equivalent Band D properties). It includes the towns of Arundel, Bognor Regis and Littlehampton together with 28 surrounding parishes.

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

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

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

Arun was ranked 150th on the Index of Multiple Deprivation in 2015 (the last published figures) out of 326 local authorities. It is ranked in the bottom half (i.e. a ranking of 163 or less) of English local authorities on 5 out of the 10 Indices of Multiple Deprivation measures. These are: • Employment 151 • Education skills and training 84 • Health deprivation and disability 134 • Barriers to housing and services 145 • Income deprivation affecting children 159.

### Key Information about the Council

#### Decision Making

##### The Council

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

##### The Cabinet

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

##### Overview Select Committee

The Overview Select Committee undertakes the scrutiny function of the Council and is made up of 15 members. The committee makes recommendations to Cabinet based on its findings

## **Audit and Governance Committee**

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

## **The Annual Governance Statement**

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

## **Workforce**

The Council employs approximately 380 staff in full-time and part-time positions. Arun's workforce has undergone a planned reduction to make it smaller and more effective as part of its 2020: Vision Programme. The Council employed 406 posts at the start of the programme in 2014/15. Planned staff numbers increased slightly from 376 in 2018/19 to 381 for 2019/20 (392 previous year). The increase is mainly due to additional responsibilities in the areas of Licensing and Planning delivery.

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

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

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

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

- Leisure Management
- Waste Management
- Grounds maintenance

## **The Council's Performance**

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

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

Cabinet is updated on performance twice a year. The full outturn report of the Council's performance will be considered at the Overview Select Committee meeting on 25 June 2019.

The Council takes performance very seriously and has formulated a number of stretch targets for 2019/20 and the new Council will be monitoring those 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 97.8% (98.01% previous year) compared to the target of 98%. The total collected increased by £5.9m to £103.4m (£97.5m previous year).
- Housing Benefit/ Council Tax Support – the time taken to process new claims was 3.3 days (6.4 days previous year) compared to a target of 8 days.
- Household waste sent for reuse, recycling and composting was 42.01% (40.90% previous year) compared to the target of 40%.

### **The Local Plan**

The Arun Local Plan 2011-31 was adopted on 18<sup>th</sup> July 2018. It sets out a spatial vision, objectives and a sustainable strategy for delivering the needed growth for the District over the period 2011-2031. The Local Plan is intending to provide an average of 1,000 homes per annum between 2011 and 2031 (total 20,000 homes). Since there is a reliance on large strategic sites to deliver this scale of housing the Plan's trajectory is 'stepped' to reflect the time it will take to secure delivery on some sites.

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

"Plan and Deliver a range of housing mix types in locations with good access to employment, services and facilities to meet the District's housing requirements and the needs of Arun's residents and communities both urban and rural, ensuring that issues of affordability and the provision of appropriate levels of affordable housing are addressed while supporting the creation of integrated communities"

"Promote strong, well integrated and cohesive communities, through the promotion of healthy lifestyles, provision of good quality accessible community facilities and a safe environment, which delivers an enhanced quality of life to all. This includes the needs of a growing elderly population."

## **Financial Performance**

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

The future of the Council's government funding is extremely uncertain. The Fair Funding Review went out to consultation during 2018/19. It focused on the cost drivers, which are mainly population based for District councils like Arun and is designed, in theory, to redistribute funding to those areas of highest need. It is widely anticipated that the new system will be detrimental to District Councils, with a shift between the tiers of local government in two tier areas like West Sussex. There is also the potential of transferring extra responsibility (and cost) to Local Government. The outcome of the Government Spending Review SR19 covering the period 2020/21 to 2022/23 is due to be announced in the autumn of 2019.

The Business Rates Retention scheme (BRRS) has transferred a considerable risk to the council by linking government support directly to the local economy. This is a strong incentive for the Council to ensure that the business ratings list is fully inclusive and to encourage a buoyant local economy. It is also important to note any significant negative changes in the value of the ratings list will directly reduce the level of funding received in future, such as valuation appeals which can be backdated.

The 2015 Spending Review announced a number of significant changes in the way Local Government will be funded in the future. 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 reset of the retained business rates baseline is proposed in 2020/21. This could effectively wipe out all or a proportion of the past gains through growth built up since the inception of the scheme. There are no further details currently available and the situation will continue to be monitored closely due to the likely significant adverse impact on the Council's funding.

The council set up a Funding Resilience Reserve (previously Business Rate Reserve) and transferred £2.845m into it during 2018/19 to help mitigate the risk and uncertainty associated with the anticipated reduction in Government funding from 2020/21 mentioned above. The reserve is also required to help mitigate the effect of the loss of significant funding from West Sussex County Council in relation to Recycling Credits and the on street parking contract, as well as the consequence of significant cuts in relation to the voluntary sector (like Stonepillow) providing housing related support to enable people to get back on track, which is likely to place further strain on the Council's resources .

In addition to the current uncertainty and volatility in the economy as a result of the prolonged Brexit negotiations, the longer term financial impact of Brexit is creating uncertainty over interest rates, the rate of inflation, the labour market, property and rental values. There is also the risk of a delay in the Government Spending Review (SR19) as mentioned above.

The Council's General Fund expenditure is supported by Government through the Business Rate Retention scheme, the Revenue Support Grant (RSG) and the New Homes Bonus (NHB). There has been a continual sharp decline in the level of general Central Government support due to the government's austerity measures, but 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 is no longer in receipt of RSG 2019/20, which is a general government support and not linked to the local economy. The Council received £194k RSG in 2018/19 (£750k previous year). The Council was in receipt of £3.870m RSG in 2014/15, the year preceding the current Spending Review (SR15). Future funding allocations will be determined by the Fair Funding Review.

The Council received £2.733m in New Homes Bonus in 2018/19 (£3.677m previous year) and this will further decrease to £2.644m for 2019/20. There was a stepped reduction in the grant from 6 years to 4 years from 2018/19. The level of NHB is summarised in the table below:

NHB Payment relating to:	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
2011/12	509	509	509	509	509	509	0	0	0
2012/13		556	556	556	556	556	0	0	0
2013/14			1,000	1,000	1,000	1,000	1,000	0	0
2014/15				484	484	484	484	0	0
2015/16					539	539	539	539	0
2016/17						926	926	926	926
2017/18							728	728	728
2018/19								540	540
2019/20									470
<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>

The Council has had significant benefits from the New Homes Bonus, however, the review of the scheme has resulted in a significant overall reduction in funding and is dependent on the level of growth continuing. NHB awarded should be considered in light of significant reductions in other sources of external funding, notably RSG. The future of the New Homes Bonus continues to be uncertain. It is anticipated that the Government will consult on options for the NHB after the Spending Review. The scheme is unlikely to continue in its present form.

## Council Tax Income

Arun excluding Parish Councils is summarised in the table below:

Actual 2017/18	Arun excluding Parish Councils	Actual 2018/19	Budget 2019/20
59,456	Tax base	60,402	61,281
£171.27	Band D Tax	£176.40	£181.62
£10,183,000	Council Tax Income (excluding parishes)	£10,655,000	£11,130,000

The Council Tax for 2018/19 is based on an Arun Band D of £176.40, which represents an increase of £5.13 or 2.995% (£171.27 for 2017/18). This has started to redress the reduction, in real terms, of the Council Tax Income Base which was frozen for 5 years. Arun's tax base has increased significantly in 2018/19 from 59,546 to 60,402, with a further increase of 879 for 2019/20 (61,281). The increase is mainly due to the completion of new dwellings in the District.

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

The income from fees and charges (principally from Property and Estates, Planning and car parking) has increased to around £5m (£4.2m previous year).

As referred to above the low interest environment has persisted. However, proactive investment of cash balances has generated £0.754m in interest in 2018/19 (£0.69m previous year).

The Council has a General Fund revenue balance of £7.076m (£9.344m previous year) a decrease of £2.268m, which is adequate to withstand immediate financial pressures but is inevitably a finite resource and will be monitored carefully. There are several major risks and uncertainties associated with the volatility in the council's funding, which means that the maintenance of a reasonably high level of balances is essential.

## West Sussex Business Rate Retention Pilot

West Sussex has been successful in the application to become a 75% Business Rate Retention Pilot for 2019/20. The West Sussex Business Rate Retention Pilot will be led by WSCC with all Districts and the County as members. The pilot will allow 75% of Business Rates to be retained locally with 20% retained by the Districts and 55% by the County (previously, half of the rates revenue was retained locally with the local share being split between Arun (80%) and West Sussex County Council (20%)). Although the percentage

shares have changed the new pilot has been set up with the condition of no detriment to any of its members. This means the pool will be reimbursing the District Council for loss of grant. It should be noted that the overall no detriment clause has been removed by the Ministry of Housing, Communities and Local Government (MHCLG), the pool has in excess of £2m set aside to mitigate this possibility.

The additional funding generated, as agreed by all the West Sussex Leaders, will be invested in superfast broadband, which is to the benefit of the whole of West Sussex. The Council was previously a member of the West Sussex Business Pool with Adur District Council; Worthing Borough Council; Chichester District Council; and West Sussex County Council (lead authority) which was disbanded on 31 March 2019 (commenced 2015/16).

## Net Assets

The Council maintains a strong balance sheet despite financial challenges, net assets are £256.445m (£259.977m at 31 March 2018)

Non-Current Assets (Property & Investments) £305.200m	➡	Net Assets 31 March 2019 £256.445m
Net Current Assets (Debtors, Creditors & Cash) £33.328m	➡	
Long Term Liabilities (Pensions, Borrowing & Provisions) £82.084m	➡	
Funded by: Usable Reserves £33.656m	➡	
Funded by: Unusable Reserves £222.789m	➡	

Non-Current Assets (Property & Investments) £298.089m	➡	Net Assets 31 March 2018 £259.977m
Net Current Assets (Debtors, Creditors & Cash) £43.029m	➡	
Long Term Liabilities (Pensions, Borrowing & Provisions) £81.141m	➡	
Funded by: Usable Reserves £40.725m	➡	
Funded by: Unusable Reserves £219.253m	➡	

## Financial Management

The 2018/19 budget was considered by the Overview Select Committee on 31 January 2018 and cabinet on 12 February 2018 before being formally approved by Full Council on 21 February 2018. The budget took account of 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 2017 was also taken into consideration.

The statutory ringfence of the Housing Revenue Account (HRA) requires that the Council sets separate budgets for the HRA and GF. The Code requires that these are aggregated in the Primary performance statements (pages 18 to 23) and the Expenditure and Funding Analysis (page 17). 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 2018/19 for the GF and HRA (please see page 13 for further details on HRA).

# Reconciliation of the outturn position to the Financial Statements 2018-19

	GF £'000	Earmarked £'000	HRA £'000	Combined £'000
<b>Cost of Service as per Comprehensive Income &amp; Expenditure Statement</b>	<b>26,898</b>	<b>-</b>	<b>(8,984)</b>	<b>17,915</b>
<b>Adjustments between accounting basis &amp; funding under regulations</b>				
Adjustment for Capital Purposes	(6,575)	-	6,768	192
Net Change for Pensions Adjustments	(2,154)	-	(189)	(2,343)
Other Changes	26	-	3	29
<b>Total Adjustments (See Note 7)</b>	<b>(8,704)</b>	<b>-</b>	<b>6,582</b>	<b>(2,121)</b>
<b>Net Cost of Services in the Expenditure and Funding Analysis</b>	<b>18,195</b>	<b>-</b>	<b>(2,401)</b>	<b>15,793</b>
<b>Other Income and Expenditure (see Expenditure and Funding Analysis)</b>	<b>(12,861)</b>	<b>-</b>	<b>1,797</b>	<b>(17,178)</b>
Transfer to / (from) Earmarked Reserve (See Note 10 - Net Transfers)	(3,066)	3,066	-	0
<b>(Surplus) / Deficit for the year</b>	<b>2,268</b>	<b>3,066</b>	<b>(604)</b>	<b>(1,384)</b>

The original budget for 2018/19 was balanced anticipating no change in the level of General Fund Reserve. The Council's governance arrangements require significant additional expenditure (that was not included in the original budget) to be approved by Full Council. During the year two additional supplementary estimates totalling £755k were approved (Comprised of £650k for nightly paid accommodation and £105k for costs associated with the Judicial Review of the planning application related to "Land south of summer land and west of Pagham Road, Pagham"). Cabinet approved a £2m transfer to the Funding Resilience Reserve, set up to help mitigate against the anticipated significant further reduction in Government funding from 2020/21 (including the risk of the Business Rate reset) when the Medium Term Financial Strategy was considered in September 2018. These changes resulted in a total approved budgeted draw down from reserves of £2.755m. Regular strategic monitoring that was carried out during the year indicated an estimated General Fund outturn position of around £7m (actual £7.078m). Section 25 (1) of the Local Government Act 2003 requires the Chief Financial Officer to report on the "adequacy of the reserves and balances". The reserve balances at the 31 March 2019 are adequate and continue to be in line with the Council's Medium Term Financial Strategy.

## Reconciliation of Original to Current Budget Reserve Movement to March 2019

	£'000	£'000
Original Budget		0
Nightly paid accommodation	650	
Judicial Review Planning - Pagham	105	
Transfer to Budiness Rate Reserve	<u>2,000</u>	
Total approved General Fund Reserve movement 2019/20		2,755
<b>Total Approved Budget 2018/19</b>		<b>2,755</b>

The outturn for 2018/19 of £2.268m draw down from the General Fund Reserve is an adverse variation against original budget due to the supplementary estimates and virement shown in the table above. The outturn is (£487k) favourable against the final approved budget of £2.755m.

It is important to note that the outturn position is comprised of a significant number of smaller underspends/additional income and some significant more items (over £100k) which are analysed below:

### Variation Analysis original budget to outturn 2018/19

	£'000
Establishment savings (above £450k vacancy management target)	(177)
Additional Leisure contract income inflation	(119)
Additional Council Tax court cost recovered	(107)
Rent Rebates - additional income	(112)
Homelessness - nightly paid accommodation*	567
Planning appeal supplementary estimate*	105
Income (fees and charges)	(93)
Other portfolio underspends (excluding income and establishment) < £100k	(264)
Additional non-ringfenced grants s31 New Burdens net (£437k gross)	(251)
Balance of contingency budget	(113)
Business Rates - additional income	(845)
Changes in capital Financing and earmarked reserve adjustments	(533)
Additions to Pavilion Park Reserve	2,076
Addition to Funding Resilience Reserve	2,845
Interest and investment income	(168)
s106 developer contributions 2018/19	(543)
<b>Reduction in General Fund 2018/19</b>	<b>2,268</b>

\* Supplementary Estimates approved by Full Council

The Homelessness Reduction Act, which came into force on 1 April 2018 placed a renewed focus on homelessness prevention and introduced a range of new duties on councils. Its implementation has seen an increase in the number of homelessness presentations and these continue to rise. This in turn has seen an increase in the use of temporary accommodation



and the length of time households are accommodated. Based on current trends it is projected that usage and spend will continue at the same level into 2019/2020.

The favourable variation of (£112k) on Rent Rebates is mainly due to recoveries from ongoing benefit exceeding budget. The actual Non HRA Rent Rebates (£486k) was significantly higher than budget (£180k) due the new homeless accommodation owned by the Council in Wick. However, this increase was matched by housing subsidy.

The Council received significant s106 sums for maintenance in perpetuity in respect of a number of sites. It should be noted that the receipt of these sums will also lead to the requirement for additional revenue expenditure in respect of maintaining the relevant sites. These sums were not included in the budget for 2018/19 as the timing of the receipts was not certain. The £332k of s106 sums received in 2018/19 were applied to the financing of the Littlehampton Wave as planned during the year. In addition, £211k of s106 developer contributions for Leisure facilities was also applied to the scheme (total £545k).

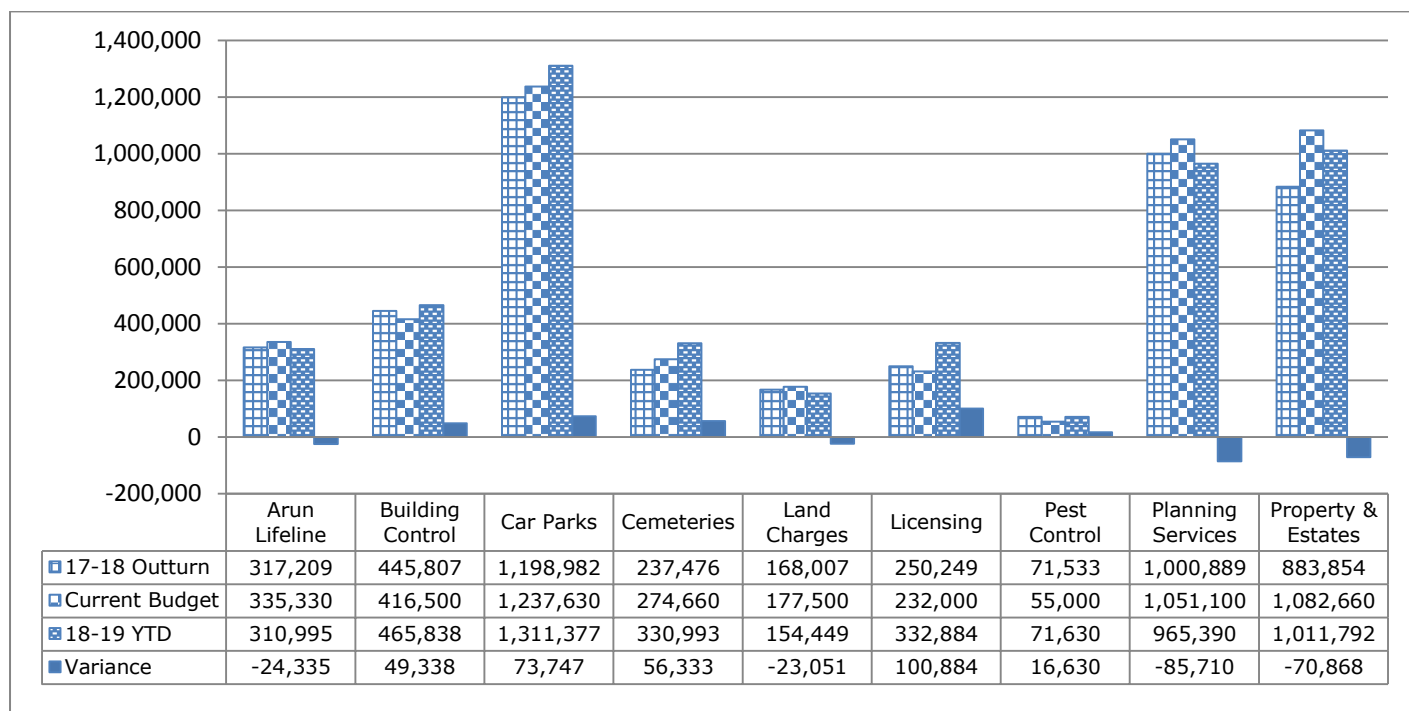
During the year £2.076m of unrequired budgets and earmarked reserve were identified to help fund the Council's Pavilion Park regeneration scheme in Bognor Regis. The total capital budget for the project of £3.090 has £858k left to be financed. Please see capital spending and finance for further information.

The £845k additional net income on retained business rates has a number of components. The most significant factors are the recalculation by the MHCLG of the basis of compensating local authorities for the loss of income due to small business relief and the increase in the appeals provision resulting in a reduction in the growth Levy. The adverse effect of the higher level of appeals will not be felt until 2019/20 and future years.

The additional net income for retained business rates enabled a £845k transfer to the Funding Resilience Reserve. The Council earmarked £1m of funding in 2017/18 to be able to effectively plan a reduction in expenditure and not to be forced into short term solutions and to become more resilient to the funding cuts forecast but uncertain from 2020/21 onwards. This was increased by a further £2m during 2018/19 when the MTFS was considered in September 2018 (Financial Prospects 2018/19 to 2023/24 report Cabinet 17 September 2018) when it became apparent that the Council's financial prospects would be worse than predicted. The balance of the Strategic Funding Resilience Reserve was £3.845m on 31 March 2019.

Service related income from fees, charges and rents are included within net cost of service. In total this amounts to an overall financing of £4.955m in 2018/19 (£4.574m previous year). Income is a key risk area to the budget as it is predominantly externally influenced, without direct link to service cost and each source is unique.

The graph below analyses (£93k) favourable outturn income variation by source and value.

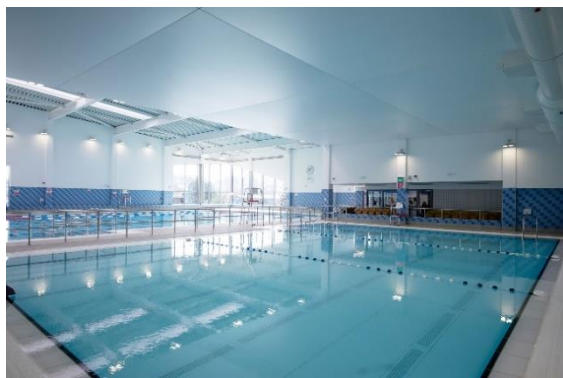


## Capital Spending and Finance

A budget of £20.4m for capital and special revenue projects was approved by the Council for 2018/19. In addition, £18.7m was carried forward from 2017/18 due to project slippage. Actual expenditure for the year amounted to £17.9m (£16.8m previous year) on capital schemes and £2.3m (£2.2m previous year) on special revenue projects. Details of the capital financing is contained in Note 34 to the Accounts (Capital Expenditure and Financing).

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

The General Fund capital programme was dominated this year by the completion of the new leisure centre, the Littlehampton Wave financed from a combination of capital receipts, capital grants and revenue finance. This opened towards the end of March 2019. The final financing of the Wave includes £1.923m from a capital receipt (from the sale of Daisyfields). Negotiation for the site commenced in August 2018, with contracts exchanged in October 2018. The sale was subject to Planning permission which was granted in April 2019 but this is subject to detailed negotiations in relation to s106 developer contributions towards infrastructure on the site. The capital receipt is expected in the first quarter of 2019/20. The implications of this for the Council's capital financing are expended on in Note 34 – Capital Expenditure and Capital Financing (pages 82 to 83).



Littlehampton Wave (£11.395m (£5.987m 2017/18))

Public Conveniences in Hotham Park  
Bognor Regis, St. Martins Car park  
Littlehampton, Norfolk Gardens  
Littlehampton and Blakes Road  
Felpham all received major  
refurbishments (£374k).



Play areas at West Park, Hotham  
Park, Hampshire Avenue,  
Southfield's Recreation Ground were  
completely refurbished (£221k) and  
a brand new play area on Bognor  
Regis seafront (pictured) was built  
(£106k).

The new cricket pavilion built in  
Felpham (£140k), it had its grand  
opening in April 2019, it replaced the  
old one previously destroyed by fire.



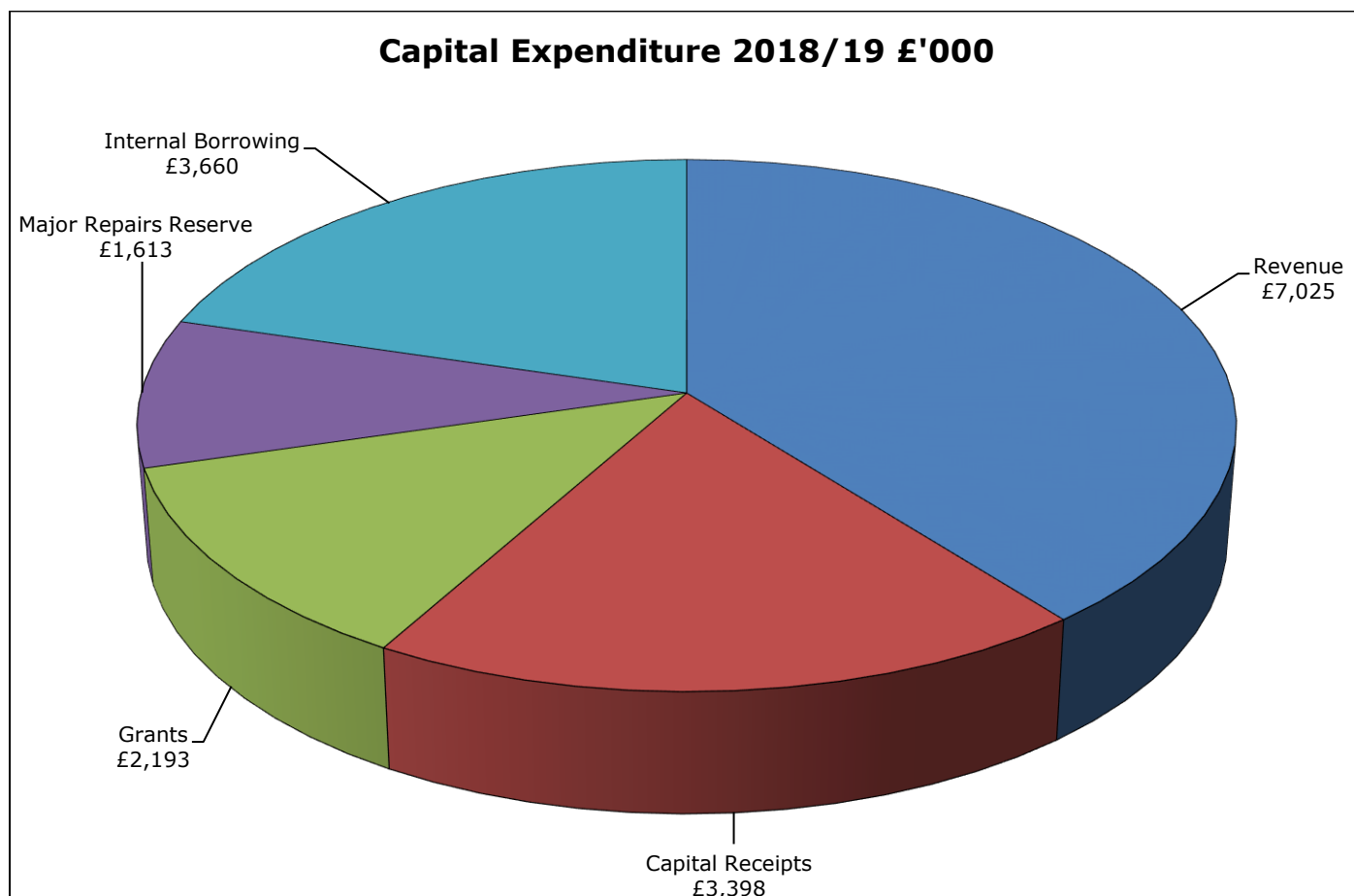


The Housing Revenue Account's acquisition/new build programme saw the acquisition of 9 properties (£1.496m) and completion of the remaining 22 new build properties in Wick £1.016m (£2.671m 2017/18).

With the completion of the Wave in 2018/19, the next significant capital scheme for the General Fund is Pavilion Park, a Regeneration scheme on the Hothampton/sunken garden site in central Bognor Regis. The budget for 2019/20 includes £3.090m for the project which includes a significant piece of new public realm, incorporating replacement car parking spaces, some retail and other outdoor uses, with a residential development on the western side of the site with some retail on the ground floor. It is anticipated that the new park will raise the value of the residential development site. The final scheme design, following significant stakeholder consultation, will be worked on leading to planning permission in 2019/20 and construction commencing in 2020/21. The capital scheme was included in the budget for 2019/20 but is unfinanced. It is planned to fund the scheme from a variety of sources including Capital Receipts, Capital Grants, Revenue Finance and Prudential Borrowing. The actual financing of the scheme will depend on the nature of the expenditure (capital or revenue) and the availability of the various funding sources. The Council committed itself to closing the funding gap through the use of one-off income/savings with the remainder financed through prudential borrowing. It is Council policy to minimise borrowing as it impacts on the revenue account and would require additional savings in future year. The favourable outturn (please see details in revenue variations above) has resulted in the earmarking of £2.076m towards the scheme with a balance of £858k remaining to be financed.

The Council is also investing approximately £0.5m on a new Revenues and Benefits system which is designed to improve customer experience through more online capability like paperless billing.

The total financing of Capital Expenditure for 2018/19 is summarised below:



### Housing Revenue Account (HRA)

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

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

The latest 30 Year Housing Revenue Account Business Plan update was considered at cabinet on 4 March 2019 and approved by Full Council on 13 March 2019. The projections take account of a stock condition survey of the housing stock which was completed towards the end of 2019. 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 2018/19 the HRA, including the Major Repairs Reserve, showed a surplus of £0.431m compared with the budgeted deficit of £1.248m. The HRA balance at 31 March 2019

was £7.229m. This balance is expected to significantly reduce over the first few years of the new Business Plan as a result of the programme of new dwellings and additional expenditure on the housing stock. The budget for 2019/20 is a £3.117m deficit.

The relationship between the HRA and the CIES and EFA is analysed on page 17. The surplus of £0.431m referred to above comprises £0.604m surplus on the HRA and £0.173 deficit on the Major Repairs Reserve.

## **Pensions Liability**

Under the requirements of IAS 19 the Council shows the total future costs of pension liabilities for the Local Government Pension Scheme. It is important to note that as the liability is matched by a reserve, the figures do not have any effect on the level of Council Tax. At 31 March 2019 the liability was £27.456m compared with £19.2m for the previous year. The increase is largely attributable to this year's net discount rate decreasing by 0.4%pa in comparison to last year, hence causing a significant increase in the value of the liabilities. The relevant details are shown in Note 38 Defined Benefit.

## **Treasury Management**

The Council has significant cash surpluses, and these are mainly invested with the highest quality banks and building societies and £5m is invested in a local authority property fund. All investments are made in strict compliance with the CIPFA Treasury Management Code of Practice. Total investments amounted to £54.0m (£54.2m including accrued interest), managed entirely internally. The total interest earned in 2018/19 was £0.754m, representing an average interest rate of 1.25% (2017/18 1.05%).

## **Balances and Reserves**

The Council's total usable reserves at 31 March 2019 amounted to £33.656m, a decrease of £7.069m compared with the previous year (£40.725m). They were comprised of: earmarked reserves £15.394m; Housing Revenue Account balance £7.229m; General Fund Revenue balance £7.076m; usable capital receipts £2.791m (to be spent within agreed timeframes); and Housing Major Repairs Reserve £1.165m.

## **Explanation of the Accounting Statements**

The accounting statements and their location in this document are listed on page 2. Their nature and purpose are 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 £1.317m. Other charges relating to fixed assets and pensions, are not proper charges against the General Fund or HRA balances and are required to be reversed out of the statements. When this is allowed for, the General Fund decreased by £2.268m and HRA balances (including Major Repairs Reserve), increased by £0.431m.

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 2018 and



March 2019 is largely made up of £7.6m increase in the valuation of Council housing stock and £2.3m in other property, plant and equipment assets.

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 page i and ii. Their nature and purpose is 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 Group Head of Corporate Support, Arun Civic Centre, Maltravers Road, Littlehampton.

## Statement of Responsibilities

### The Authority's Responsibilities

The authority is required to:

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

### Responsibilities of the Group Head of Corporate Support

The Group Head of Corporate Support is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Group Head of Corporate Support has:

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

The Group Head of Corporate Support has also:

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

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

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 30 July 2019. I confirm that the date of this declaration is the date up to which events have been considered for inclusion within the Council's Statement of Accounts and that events after the Balance Sheet date have been considered to this date and the accounts amended accordingly for such events and adjustments arising from audit. The accounts are therefore authorised for issue.

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

Dated 30 July 2019

#### **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 30 July 2019.

Councillor Inna Erskine, Chairman, Audit & Governance Committee

Dated 30 July 2019

## 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.

Restated 2017/18			2018/19		
Net Expenditure Chargeable to the General Fund and HRA Balance	Adjustments	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund and HRA Balance	Adjustments	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000	£000
1,245	689	1,934	Community Wellbeing	556	6,357
224	13	237	Corporate Support Group	268	12
366	131	497	Economy	384	123
(1,468)	(16,282)	(17,751)	Local Authority Housing (HRA)	(2,401)	(6,582)
2,616	687	3,303	Neighbourhood Services	4,352	797
669	209	878	Planning	914	214
2,232	1,416	3,649	Residential Services	4,320	425
876	931	1,806	Technical Services	709	(401)
7,130	1,223	8,353	Management & Support Services	6,691	1,158
0	550	550	Non distributed costs / gains	0	955
<b>13,891</b>	<b>(10,434)</b>	<b>3,457</b>	<b>Net Cost of Services</b>	<b>15,793</b>	<b>3,057</b>
(18,309)	(3,307)	(21,617)	Other Income and Expenditure	(11,063)	(9,104)
<b>(4,419)</b>	<b>(13,741)</b>	<b>(18,160)</b>	<b>Surplus or Deficit on Provision of Services</b>	<b>4,730</b>	<b>(6,047)</b>
(30,011)		Opening Combined General Fund and HRA Balance	(34,430)		
(4,419)		Plus / less Surplus or Deficit on the General Fund and HRA Balance for the Year (Statutory basis)	4,730		
<b>(34,430)</b>		<b>Closing Combined General Fund and HRA Balance</b>	<b>(29,700)</b>		

The figures above the line for 'Net Cost of Services' have been restated for the 2017-18 comparator year to reflect the Council's revised portfolio structure between Corporate Support Group and Residential Services.

## 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.

Restated 2017/18				2018/19		
Expenditure	Income	Net		Expenditure	Income	Net
£000	£000	£000	Notes	£000	£000	£000
3,830	(1,896)	1,934	Community Wellbeing	8,972	(2,059)	6,913
296	(59)	237	Corporate Support Group	283	(3)	280
1,356	(859)	497	Economy	752	(245)	507
(1,170)	(16,581)	(17,751)	Local Authority Housing (HRA)	7,556	(16,540)	(8,984)
10,993	(7,690)	3,303	Neighbourhood Services	13,644	(8,495)	5,149
2,050	(1,172)	878	Planning	2,141	(1,013)	1,128
53,443	(49,795)	3,648	Residential Services	50,997	(46,252)	4,745
4,095	(2,289)	1,806	Technical Services	3,757	(3,449)	308
8,793	(440)	8,353	Management & Support Services	8,354	(506)	7,848
550	0	550	Non distributed costs / gains	955	0	955
<b>84,237</b>	<b>(80,780)</b>	<b>3,457</b>	<b>Cost of Services</b>	<b>97,412</b>	<b>(78,561)</b>	<b>18,851</b>
4,663	(731)	3,932	11 Other Operating Expenditure	4,889	(759)	4,131
6,313	(6,435)	(121)	12 Financing and Investment Income and Expenditure	6,772	(5,454)	1,318
0	(25,428)	(25,428)	13 Taxation and Non Specific Grant Income	0	(25,616)	(25,616)
<b>95,214</b>	<b>(113,374)</b>	<b>(18,160)</b>	<b>Surplus or Deficit on Provision of Services</b>	<b>109,074</b>	<b>(110,391)</b>	<b>(1,317)</b>
		(5,400)	24 Surplus or deficit on revaluation of Property, Plant and Equipment			(1,406)
		(148)	24 Surplus or deficit on revaluation of available for sale financial assets and financial instruments at fair value through other comprehensive income and expenditure			(78)
		(9,635)	24 Remeasurement of the net defined benefit liability / asset			6,333
		<b>(15,184)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>4,849</b>
		<b>(33,343)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>3,532</b>

The figures above the line for 'Cost of Services' have been restated for the 2017-18 comparator year to reflect the Council's revised portfolio structure between Corporate Support Group and Residential Services.

## Movement in Reserves Statement

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.

	<b>Total General Fund Balance £000</b>	<b>Total HRA Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Major Repairs Reserve £000</b>	<b>Total Usable Reserves £000</b>	<b>Unusable Reserves £000</b>	<b>Total Reserves £000</b>
<b>Balance at 31 March 2018</b>	(27,804)	(6,625)	(4,957)	(1,338)	<b>(40,725)</b>	(219,253)	<b>(259,977)</b>
<b>Movement in reserves during 2018/19</b>							
Surplus or deficit on the provision of services	6,881	(8,198)			<b>(1,317)</b>		<b>(1,317)</b>
Other Comprehensive Income / Expenditure						4,849	<b>4,849</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>6,881</b>	<b>(8,198)</b>			<b>(1,317)</b>	<b>4,849</b>	<b>3,532</b>
Adjustments between accounting basis and funding basis under regulations	(1,547)	7,594	2,166	173	<b>8,385</b>	(8,385)	<b>0</b>
<b>Increase or Decrease in 2018/19</b>	<b>5,334</b>	<b>(604)</b>	<b>2,166</b>	<b>173</b>	<b>7,068</b>	<b>(3,536)</b>	<b>3,532</b>
<b>Balance at 31 March 2019</b>	<b>(22,470)</b>	<b>(7,229)</b>	<b>(2,791)</b>	<b>(1,165)</b>	<b>(33,656)</b>	<b>(222,789)</b>	<b>(256,445)</b>

### General Fund Analysed over

Amounts uncommitted	(7,076)
Amounts earmarked	(15,394)
<b>Total balance</b>	<b>(22,470)</b>

	<b>Total General Fund Balance £000</b>	<b>Total HRA Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Major Repairs Reserve £000</b>	<b>Total Usable Reserves £000</b>	<b>Unusable Reserves £000</b>	<b>Total Reserves £000</b>
<b>Balance at 31 March 2017</b>	(23,023)	(6,988)	(13,197)	(1,517)	<b>(44,725)</b>	(181,909)	<b>(226,634)</b>
<b>Movement in reserves during 2017/18</b>							
Surplus or deficit on the provision of services	(1,194)	(16,966)			<b>(18,160)</b>		<b>(18,160)</b>
Other Comprehensive Income / Expenditure						(15,184)	<b>(15,184)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(1,194)</b>	<b>(16,966)</b>			<b>(18,160)</b>	<b>(15,184)</b>	<b>(33,343)</b>
Adjustments between accounting basis and funding basis under regulations	(3,587)	17,328	8,240	179	<b>22,161</b>	(22,161)	<b>0</b>
<b>Increase or Decrease in 2017/18</b>	<b>(4,781)</b>	<b>363</b>	<b>8,240</b>	<b>179</b>	<b>4,001</b>	<b>(37,344)</b>	<b>(33,343)</b>
<b>Balance at 31 March 2018</b>	<b>(27,804)</b>	<b>(6,625)</b>	<b>(4,957)</b>	<b>(1,338)</b>	<b>(40,725)</b>	<b>(219,253)</b>	<b>(259,977)</b>

**General Fund Analysed over**

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



## Balance Sheet

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

31 March 2018			31 March 2019	
£000	Notes			£000
285,650	14	Property, Plant and Equipment		295,581
4,236	15	Investment Property		4,376
187	16	Intangible Assets		138
7,995	17	Long-Term Investments		5,072
23	17	Long-Term Debtors		33
<b>298,089</b>		<b>Long Term Assets</b>		<b>305,200</b>
47,316	17	Short-Term Investments		40,234
0	20	Assets Held for Sale		2,548
5,263	18	Short-Term Debtors		6,747
6,513	19	Cash and Cash Equivalents		8,936
<b>59,093</b>		<b>Current Assets</b>		<b>58,464</b>
0	17	Short-Term Borrowing		(8,860)
(12,870)	21	Short-Term Creditors		(11,495)
(1,710)	22	Provisions		(2,874)
(1,484)	32	Grants Receipts in Advance - Capital		(1,907)
<b>(16,064)</b>		<b>Current Liabilities</b>		<b>(25,136)</b>
(7,600)	17/21A	Long-Term Creditors		(6,866)
(53,180)	17	Long-Term Borrowing		(44,320)
(20,361)	35/38	Other Long-Term Liabilities		(28,424)
0	32	Grants Receipts in Advance - Capital		(2,473)
<b>(81,141)</b>		<b>Long Term Liabilities</b>		<b>(82,084)</b>
<b>259,977</b>		<b>Net Assets</b>		<b>256,445</b>

(40,725)	23	Usable Reserves	(33,656)
(219,253)	24	Unusable Reserves	(222,789)
<b>(259,977)</b>		<b>Total Reserves</b>	<b>(256,445)</b>

These financial statements replaced the unaudited financial statements certified by Alan Peach C.P.F.A., Group head of Corporate Support on 30 May 2019.

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

30 July 2019

## 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.

2017/18			2018/19
£000	Notes		£000
(18,160)		Net (surplus) or deficit on the provision of services	(1,317)
1,065	25	Adjustment to surplus or deficit on the provision of services for noncash movements	(4,300)
2,643	25	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	2,639
<b>(14,453)</b>		<b>Net cash flows from operating activities</b>	<b>(2,978)</b>
8,439	26	Net cash flows from investing activities	1,674
2,976	27	Net cash flows from financing activities	(1,119)
<b>(3,038)</b>		<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>(2,423)</b>
3,475		Cash and cash equivalents at the beginning of the reporting period	6,513
<b>6,513</b>		<b>Cash and cash equivalents at the end of the reporting period</b>	<b>8,936</b>

## **Note 1 - Accounting Policies**

### **i. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. 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 2018/19, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### **ii. Accruals of Expenditure and Income**

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet, subject to considerations of materiality.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made, subject to considerations of materiality.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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

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

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

#### **iv. Exceptional Items**

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

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

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

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance for MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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

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

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including Government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a

separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionally the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

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

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

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

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 Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the 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 so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### *Termination Benefits:*

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



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

#### *Post-employment Benefits:*

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

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

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

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

The change in the net 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 or 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.

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 a principal 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.

## **xii. Intangible Assets**

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

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

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

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

## **xiii. Investment Property**

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

#### **xiv. Leases**

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

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

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

*The Council as Lessee:*

*Finance Leases:*

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

Lease payments are apportioned between:

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

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

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

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

#### *Operating Leases:*

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

#### *The Council as Lessor:*

#### *Finance Leases:*

The Council has no leases currently determined as finance leases.

#### *Operating Leases:*

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

### **xv. Support Services**

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

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

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

#### *Recognition:*

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accrual basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. Expenditure on individual items of less than £25k is regarded as de minimis and charged to revenue.

#### *Measurement:*

Assets are initially measured at cost, comprising:

- purchase price



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

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

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

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

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

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

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

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

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

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

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

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

#### *Impairment:*

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

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

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

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

#### *Depreciation:*

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

Depreciation is calculated on the following basis:

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

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

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

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

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

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

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

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

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

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

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

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

### *Provisions:*

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

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

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

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

### **Amendments to IAS 40 Investment Property**

Transfers of Investment Property has been amended to state that an entity shall transfer a property to, or from investment property when, and only when, there is evidence of a change in use. This may have an impact on Arun District Council.

### **IFRS 12 Disclosure of Interests in Other Entities**

This a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. Disclosures are presented as a series of objectives, with detailed guidance on satisfying those objectives. This is unlikely to have any impact on Arun District Council.

### **IAS 28 Investments in Associates and Joint Ventures**

Measuring an Associate or Joint Venture at Fair Value. This is unlikely to have any impact on Arun District Council.

### **IFRIC 22 Foreign Currency Transactions and Advance Consideration**

The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. This is unlikely to have any impact on Arun District Council.

### **IFRIC 23 Uncertainty over Income Tax Treatments**

The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This is unlikely to have any impact on Arun District Council.

### **Amendments to IFRS 9 Financial Instruments**

Prepayment Features with Negative Compensation. These amendments enable entities to measure at amortised cost some pre-payable financial assets with so-called negative compensation. This may have an impact on Arun District Council.

### **IFRS 16 Leases**

This has been postponed until at least the 2020/21 CIPFA Accounting Code of Practice and will require Council's that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities.

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

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

- There is a high degree of uncertainty about future levels of funding for local government, particularly with regard to Business Rate Retention and the New Homes Bonus. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Transactions related to leases form a fairly insignificant part of the Council's total income and expenditure. However, there is a requirement to assess whether leases are finance or operating leases. In making this assessment, officers have had regard to CIPFA guidance and the advice received from consultants. The conclusion of these deliberations is that all current leases are operating leases.
- The Council is required to determine whether any of its contractual arrangements has the substance of a lease. Officers have considered and obtained advice upon the vehicles and plant equipment used in the combined cleansing contract, the grounds maintenance contract, the housing repairs and maintenance contracts. In the cases of the combined cleansing and grounds maintenance contracts the advice received has been that the contractual arrangements do have the substance of a lease. The accounts have therefore been prepared on this basis.
- In the course of providing its services, the Council has dealings with many entities. However, after due consideration by officers, it has been determined that none of these entities are controlled by the Council and that publication of group accounts is therefore unnecessary. Particular attention has been paid to the Littlehampton Harbour Board and Age Concern West Sussex. The Council is considering the setting up of a wholly owned Local Property Company and has registered the name of the Company - "Trisanto Development Corporation" - at Companies House. However, the company is dormant and there are no implications for the 2018/19 accounts.
- The Council has made judgements on a prudent level of allowances for an increase/decrease in impairment for bad debts. These are based on historical experience of debtor defaults and the current economic climate. By far the largest allowance relates to Housing Benefit overpayments, where due to the nature of these debts, 100% provision is made for debts over one year old and 50% provision for debts less than one year old.
- The Council has made judgements about the likelihood of potential liabilities and whether provision should be made. The judgements are based on the degree of certainty and an assessment of the likely impact. Provisions resulting from these judgements are disclosed in Note 22 and contingent liabilities in Note 39.
- Retirement Benefit Obligations - The Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirements of IAS 19 "Employee Benefits". The estimation of the net pension liability depends on a number of complex judgements and estimates relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. West Sussex County Council, as the Pension Administering Authority, engages a firm of



actuaries to provide expert advice about the assumptions to be applied. Changes in these assumptions made are set out in Note 1 and transactions disclosed in Note 38 which includes the McCloud and GMP outcome.

#### 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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of assets falls. It is estimated that the annual depreciation charge would increase by £215k for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the Real Discount Rate assumption would result in an increase in the pension liability of £18.097 million.  However the assumptions interact in complex ways. During 2018/19, the Council's actuaries advised that the net pension liability had increased by £8.273 million attributable to changes in financial assumptions and return on assets.
Bad Debt Impairment	The Council has made allowances for bad debt impairment of £2.942 million in 2018/19 (£2.827 million in 2017/18) 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 £147k (£141k in 2017/18).
Provisions	A provision of £2.874 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 2018/19 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 £287k.

Item	Uncertainties	Effect if actual results differ from assumptions
Fair Value Measurements	<p>When the fair values of non-financial assets and financial assets/liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. discounted cash flow (DCF) model). Where possible these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk for financial assets and rent growth for non-financial assets.</p> <p>Where Level 1 inputs are not available the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for Investment Property, the Council's external valuer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in Notes 1 and 15.</p>	Significant changes in any of the relevant factors or assumptions would result in a significantly lower or higher fair value measurement for the asset.

## Note 5 - Material Items of Income and Expense

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

## Note 6 - Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Group Head of Corporate Support on 30 July 2019. 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 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Following the appeals decision Note 38, Defined Benefit Pension Scheme, has been adjusted by £805k for McCloud and £131k for GMP.

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

	Net Capital Statutory Adjustments	Net Pensions Statutory Adjustments	2018/19 Other Statutory Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000	£000
Community Wellbeing	6,192	166	(1)	0	6,357
Corporate Support Group	0	12	0	0	12
Economy	89	34	0	0	123
Local Authority Housing (HRA)	(6,768)	189	(3)	0	(6,582)
Neighbourhood Services	610	188	(2)	0	797
Planning	0	217	(3)	0	214
Residential Services	117	313	(4)	0	425
Technical Services	(641)	243	(3)	0	(401)
Management & Support Services	207	963	(12)	0	1,158
Non distributed costs / gains	0	955	0	0	955
<b>Net Cost of Services</b>	<b>(192)</b>	<b>3,279</b>	<b>(29)</b>	<b>0</b>	<b>3,057</b>
Other Income and Expenditure	(8,723)	(1,338)	957	0	(9,104)
	<b>(8,915)</b>	<b>1,940</b>	<b>928</b>	<b>0</b>	<b>(6,047)</b>
<b>Difference between the Statutory Charge and the Surplus or Deficit in the Comprehensive Income and Expenditure Statement</b>					

	Restated 2017/18				
	Net Capital Statutory Adjustments	Net Pensions Statutory Adjustments	Other Statutory Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000	£000
Community Wellbeing	510	180	0	0	689
Corporate Support Group	0	13	0	0	13
Economy	89	42	0	0	131
Local Authority Housing (HRA)	(16,518)	236	0	0	(16,282)
Neighbourhood Services	477	209	0	0	687
Planning	0	209	0	0	209
Residential Services	1,098	318	0	0	1,416
Technical Services	670	261	0	0	931
Management & Support Services	205	1,018	0	0	1,223
Non distributed costs / gains	0	550	0	0	550
<b>Net Cost of Services</b>	<b>(13,469)</b>	<b>3,035</b>	<b>0</b>	<b>0</b>	<b>(10,434)</b>
Other Income and Expenditure	(2,623)	(1,376)	691	0	(3,307)
	<b>(16,092)</b>	<b>1,659</b>	<b>691</b>	<b>0</b>	<b>(13,741)</b>
<b>Difference between the Statutory Charge and the Surplus or Deficit in the Comprehensive Income and Expenditure Statement</b>					

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

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

- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those 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

	2017/18 £'000	2018/19 £'000
<b>Expenditure / Income</b>		
<b>Expenditure</b>		
Employee benefits expenses	4,269	4,071
Other services expenses	87,275	88,861
Support service recharges	0	0
Depreciation, amortisation, impairment	(7,243)	4,781
Interest payments	6,250	6,470
Precepts and levies	4,206	4,483
Payments to Housing Capital Receipts Pool	457	407
Loss on the disposal of assets	0	0
<b>Total expenditure</b>	<b>95,214</b>	<b>109,073</b>
<b>Income</b>		
Fees, charges and other service income	31,017	30,699
Interest and investment income	4,595	5,064
Income from council tax, non-domestic rates, district rate income	17,981	18,572
Government grants and contributions	59,807	56,617
Gain on the disposal of assets	(26)	(562)
<b>Total income</b>	<b>113,374</b>	<b>110,390</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>(18,160)</b>	<b>(1,317)</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.

2018/2019	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension cost (transferred to (or from) the Pensions Reserve)	(2,007)	67				1,940
Council tax and NDR (transfers to or from the Collection Fund)	(957)					957
Holiday pay (transferred to the Accumulated Absences reserve)	26	3				(29)
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)	(5,596)	1,078			(1,000)	5,518
Total Adjustments to Revenue Resources	(8,535)	1,148	0	0	(1,000)	8,386
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	178	1,461	(1,639)			
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(407)		407			
Posting of Housing Revenue Account resource from revenue to the Major Repairs Reserve		4,984		(4,984)		
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)	205					(205)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	7,026	0				(7,026)
Total Adjustments between Revenue and Capital Resources	7,002	6,446	(1,232)	(1,440)	0	(10,775)
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure			3,398			(3,398)
Use of the Major Repairs Reserve to finance new capital expenditure				1,613		(1,613)
Application of capital grants to finance capital expenditure					1,000	(1,000)
Total Adjustments to Capital Resources	0	0	3,398	1,613	1,000	(6,011)
Other adjustments	(15)					15
<b>Total Adjustments</b>	<b>(1,547)</b>	<b>7,594</b>	<b>2,166</b>	<b>173</b>	<b>0</b>	<b>(8,385)</b>



<b>2017/2018</b>	<b>General Fund Balance £000</b>	<b>Housing Revenue Account £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Major Repairs Reserve £000</b>	<b>Capital Grants Unapplied £000</b>	<b>Movement in Unusable Reserves £000</b>
<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)	(1,708)	49				1,659
Council tax and NDR (transfers to or from the Collection Fund)	(691)					691
Holiday pay (transferred to the Accumulated Absences reserve)	0	0				0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(1,565)	8,597			0	(7,032)
<b>Total Adjustments to Revenue Resources</b>	<b>(3,964)</b>	<b>8,646</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4,681)</b>
<b>Adjustments between Revenue and Capital Resources</b>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	185	2,457	(2,643)			
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(457)		457			
Posting of Housing Revenue Account resource from revenue to the Major Repairs Reserve		6,226		(6,226)		
Borrowing or liabilities met from the Major Repairs Reserve				3,544		(3,544)
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	199					(199)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	450	0				(450)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>377</b>	<b>8,683</b>	<b>(2,185)</b>	<b>(2,682)</b>	<b>0</b>	<b>(4,193)</b>
<b>Adjustments to Capital Resources</b>						
Use of the Capital Receipts Reserve to finance capital expenditure			10,425			(10,425)
Use of the Major Repairs Reserve to finance new capital expenditure				2,861		(2,861)
Application of capital grants to finance capital expenditure					0	0
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>10,425</b>	<b>2,861</b>	<b>0</b>	<b>(13,286)</b>
<b>Total Adjustments</b>	<b>(3,587)</b>	<b>17,328</b>	<b>8,240</b>	<b>179</b>	<b>0</b>	<b>(22,161)</b>

## 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 2018/19.

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

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

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

	Balance at 1 April 2017	Transfers In 2017/18	Transfers Out 2017/18	Balance at 31 March 2018	Transfers In 2018/19	Transfers Out 2018/19	Balance at 31 March 2019
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund Reserves:</b>							
Delayed capital & special projects	(4,289)	(3,612)	4,289	<b>(3,612)</b>	(2,180)	3,612	<b>(2,180)</b>
Pension deficit financing	(3,153)	0	951	<b>(2,202)</b>	0	1,317	<b>(885)</b>
Community Wellbeing	(2,754)	(4,252)	534	<b>(6,473)</b>	(2,199)	7,292	<b>(1,380)</b>
Corporate Governance	(582)	(1,384)	626	<b>(1,341)</b>	(3,209)	228	<b>(4,321)</b>
Economy	(447)	(189)	375	<b>(260)</b>	(2,521)	252	<b>(2,529)</b>
Neighbourhood Services	(406)	(188)	29	<b>(565)</b>	(299)	130	<b>(735)</b>
Planning	(646)	(619)	322	<b>(943)</b>	(176)	323	<b>(796)</b>
Residential Services	(1,663)	(605)	129	<b>(2,140)</b>	(754)	1,392	<b>(1,502)</b>
Technical Services	(841)	(261)	177	<b>(925)</b>	(294)	150	<b>(1,068)</b>
<b>Total General Fund</b>	<b>(14,781)</b>	<b>(11,111)</b>	<b>7,432</b>	<b>(18,460)</b>	<b>(11,631)</b>	<b>14,696</b>	<b>(15,394)</b>

## Note 11 - Other Operating Expenditure

2017/18 £000		2018/19 £000
4,061	Precepts	4,271
145	Levies	212
457	Payments to the Government Housing Capital Receipts Pool	407
(731)	Gains/losses on the Disposal of Non-Current Assets	(759)
<b>3,932</b>	<b>Total Other Operating Expenditure</b>	<b>4,131</b>

## Note 12 - Financing and Investment Income and Expenditure

2017/18 £000		2018/19 £000
1,632	Interest payable and similar charges	1,626
720	Net interest on the net defined benefit liability (asset)	536
(697)	Interest receivable and similar income	(756)
(1,777)	Income and expenditure in relation to investment properties and changes in their fair value	(158)
0	Changes in impairment loss allowance of financial instruments	70
<b>(121)</b>	<b>Total</b>	<b>1,318</b>

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

2017/18 £000		2018/19 £000
(14,309)	Council tax income	(15,064)
(3,673)	Non-domestic rates income and expenditure	(3,508)
(7,446)	Non-ringfenced government grants	(6,044)
0	Capital grants and contributions	(1,000)
<b>(25,428)</b>	<b>Total</b>	<b>(25,616)</b>

## Note 14 - Property, Plant and Equipment

### Movements to 31 March 2019

	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 2018</b>	208,182	56,406	5,333	14,343	2,783	116	9,313	<b>296,476</b>
Additions	2,784	806	928	0	0	0	12,178	<b>16,696</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	707	0	0	0	3	0	<b>710</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	1,843	(5,097)	0	0	0	0	0	<b>(3,254)</b>
Depreciation – disposals	0	0	(182)	0	0	0	0	<b>(182)</b>
Depreciation – other	0	(28)	0	(112)	0	0	0	<b>(140)</b>
Reclassifications and transfer	3,704	17,743	0	0	15	(15)	(21,447)	<b>0</b>
Assets reclassified (to)/from Held for Sale	(705)	(2,548)	0	0	0	0	0	<b>(3,252)</b>
Other movements in cost or valuation	0	0	0	0	(14)	0	0	<b>(14)</b>
<b>at 31 March 2019</b>	<b>215,808</b>	<b>67,989</b>	<b>6,079</b>	<b>14,232</b>	<b>2,784</b>	<b>104</b>	<b>44</b>	<b>307,040</b>

**Accumulated Depreciation and Impairment**

<b>at 1 April 2018</b>	0	0	(1,052)	(9,774)	0	0	0	<b>(10,826)</b>
Depreciation charge	(4,845)	(817)	(444)	(254)	0	0	0	<b>(6,359)</b>
Depreciation written out to the Revaluation Reserve	0	696	0	0	0	0	0	<b>696</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	4,845	40	0	0	0	0	0	<b>4,885</b>
Derecognition – disposals	0	0	91	0	0	0	0	<b>91</b>
Derecognition – other	0	0	0	55	0	0	0	<b>55</b>
Other movements in depreciation and impairment	0	0	0	0	0	0	0	<b>0</b>
<b>at 31 March 2019</b>	<b>0</b>	<b>(81)</b>	<b>(1,405)</b>	<b>(9,972)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(11,458)</b>
<b>Net Book Value</b>								
<b>at 31 March 2019</b>	<b>215,808</b>	<b>67,909</b>	<b>4,673</b>	<b>4,259</b>	<b>2,784</b>	<b>104</b>	<b>44</b>	<b>295,581</b>
<b>at 31 March 2018</b>	<b>208,182</b>	<b>56,406</b>	<b>4,281</b>	<b>4,569</b>	<b>2,783</b>	<b>116</b>	<b>9,313</b>	<b>285,650</b>

# **Movements to 31 March 2018**

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

## Accumulated Depreciation and Impairment

<b>at 1 April 2017</b>	0	(442)	(667)	(9,171)	0	0	0	<b>(10,280)</b>
Depreciation charge	(3,613)	(772)	(437)	(646)	0	0	0	<b>(5,467)</b>
Depreciation written out to the Revaluation Reserve	0	1,075	0	0	0	0	0	<b>1,075</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,613	139	0	0	0	0	0	<b>3,752</b>
Derecognition – disposals	0	0	34	0	0	0	0	<b>34</b>
Derecognition – other	0	0	18	42	0	0	0	<b>60</b>
Other movements in depreciation and impairment	0	0	0	0	0	0	0	<b>0</b>
<b>at 31 March 2018</b>	<b>0</b>	<b>0</b>	<b>(1,052)</b>	<b>(9,774)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(10,826)</b>
<b>Net Book Value</b>								
<b>at 31 March 2018</b>	<b>208,182</b>	<b>56,406</b>	<b>4,281</b>	<b>4,569</b>	<b>2,783</b>	<b>116</b>	<b>9,313</b>	<b>285,650</b>
<b>at 31 March 2017</b>	<b>195,462</b>	<b>51,227</b>	<b>3,697</b>	<b>5,215</b>	<b>2,789</b>	<b>137</b>	<b>1,888</b>	<b>260,414</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 2019, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2018/19 budgeted to cost £334k. Similar commitments at 31 March 2018 were £13.071m.

## Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. All valuations were carried out by external valuers. Valuations of land and buildings were carried out



in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

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

Significant assumptions applied in estimating current value are:

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

### Property, Plant and Equipment Revaluations

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	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Carried at historical cost</b>	0	0	4,673	4,259	2,784	0	44	11,760
<b>Valued at current value as at:</b>								
<b>31/03/2019</b>	215,808	53,245	0	0	0	96	0	269,149
<b>31/03/2018</b>	0	14,664	0	0	0	8	0	14,672
<b>Total Cost or Valuation</b>	<b>215,808</b>	<b>67,909</b>	<b>4,673</b>	<b>4,259</b>	<b>2,784</b>	<b>104</b>	<b>44</b>	<b>295,581</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.

31 March 2018		31 March 2019
£000	Investment Property Income and Expenditure	£000
(139)	Rental income from investment property	(250)
64	Direct operating expenses from investment property	231
(2)	Other income and expenditure	2
<b>(77)</b>	<b>Net (gain)/loss</b>	<b>(18)</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:

31 March 2018		31 March 2019
Non-Current £000	Investment Properties Movements in Year	Non-Current £000
617	Opening Balance	4,236
	Additions:	
1,919	Purchases	0
1,700	Net gains/losses from fair value adjustments	140
<b>4,236</b>	<b>Balance at the end of the year</b>	<b>4,376</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 2019 and 2018 is as follows:

<b>Recurring fair value measurements using:</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Other significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Fair value as at 31 March 2019</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Commercial units			4,376	4,376
<b>Total</b>	<b>-</b>	<b>-</b>	<b>4,376</b>	<b>4,376</b>

## Comparative Figures

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

## Transfers between Levels of Fair Value Hierarchy

There were no transfers between levels during the year.

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

Significant Unobservable Inputs - Level 3:

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

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

## Highest and Best Use of Investment Properties

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

## Valuation Techniques

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

## Note 16 - Intangible Assets

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

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

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

<b>31st March 2018</b>		<b>31st March 2019</b>
<b>Total</b>		<b>Total</b>
<b>£000</b>		<b>£000</b>
Balance at start of year:		
355	Gross carrying amounts	425
(195)	Accumulated amortisation	(238)
<b>160</b>	<b>Net carrying amount at start of year</b>	<b>187</b>
Additions:		
70	Purchases	0
(44)	Amortisation for the period	(49)
<b>187</b>	<b>Net carrying amount at end of year</b>	<b>138</b>
Comprising:		
425	Gross carrying amounts	425
(238)	Accumulated amortisation	(287)
<b>187</b>	<b>Total</b>	<b>138</b>

## Note 17 - Financial Instruments

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

### Financial Asset

	Non Current				Current					
	Investments		Debtors		Investments		Debtors		Total	Total
	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Pre IFRS 9 Categories</b>										
Loans and receivables	-	3,000	-	-	-	53,513	-	-	-	56,513
Available-for-sale financial asset	-	4,995	-	-	-	-	-	-	-	4,995
Debtors	-	-	-	23	-	-	-	1,875	-	1,898
Accrued Interest	-	-	-	-	-	316	-	-	-	316
<b>Total</b>	<b>-</b>	<b>7,995</b>	<b>-</b>	<b>23</b>	<b>-</b>	<b>53,829</b>	<b>-</b>	<b>1,875</b>	<b>-</b>	<b>63,722</b>
<b>IFRS Categories</b>										
Fair value through Profit or loss	5,072	-	-	-	-	-	-	-	5,072	-
Amortised cost	-	-	-	-	48,936	-	-	-	48,936	-
Fair value through other comprehensive income - designated equity instruments										
Fair value through other comprehensive income - other	-	-	-	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>5,072</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,936</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54,008</b>	<b>-</b>
Non-financial assets	-	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	234	-	-	-	234	-
Debtors	-	-	33	-	-	-	3,910	-	3,943	-
<b>Total</b>	<b>5,072</b>	<b>-</b>	<b>33</b>	<b>-</b>	<b>49,170</b>	<b>-</b>	<b>3,910</b>	<b>-</b>	<b>58,185</b>	<b>-</b>

## Financial Liabilities

	Non Current				Current					
	Borrowings		Creditors		Borrowings		Creditors		Total	Total
	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Fair value through Profit or loss</b>	-	-	-	-	-	-	-	-	-	-
<b>Amortised cost</b>										
PWLB borrowings	44,320	53,180	-	-	8,860	-	-	-	53,180	53,180
<b>Total financial assets</b>	44,320	53,180	-	-	8,860	-	-	-	53,180	53,180
Non-financial liability (creditors)	-	-	6,866	7,600	-	-	5,170	4,514	12,036	12,114
<b>Total</b>	<b>44,320</b>	<b>53,180</b>	<b>6,866</b>	<b>7,600</b>	<b>8,860</b>	<b>-</b>	<b>5,170</b>	<b>4,514</b>	<b>65,216</b>	<b>65,294</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 2019		31 Mar 2018		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	2019	2018
	£000	£000	£000	£000	£000	£000
<b>Net gains/losses on:</b>						
Financial assets measured at fair value through Profit or loss	-	72	-	(5)	72	(5)
Financial asset measured at amortised cost	-	-	-	-	-	-
Investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss						
Financial liabilities measured at amortised cost						
<b>Total net gains/losses</b>	-	<b>72</b>	-	<b>(5)</b>	<b>72</b>	<b>(5)</b>
Interest revenue	756	-	696	-	756	696
Financial assets measured at amortised cost	-	-	-	-	-	-
Other financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
<b>Total interest income</b>	<b>756</b>	-	<b>696</b>	-	<b>756</b>	<b>696</b>
<b>Interest expense</b>	(1,626)	-	(1,632)	-	(1,626)	(1,632)
<b>Fee Income</b>						
Financial assets or financial liabilities that are not at fair value through profit or loss	-	-	-	-	-	-
<b>Total fee income</b>	-	-	-	-	-	-
<b>Fee expense</b>						
Financial assets or financial liabilities that are not at fair value through profit or loss	-	-	-	-	-	-
<b>Total fee expense</b>	-	-	-	-	-	-
<b>Total</b>	<b>(870)</b>	<b>72</b>	<b>(936)</b>	<b>(5)</b>	<b>(798)</b>	<b>(941)</b>

## Breakdown of financial assets and liabilities:

	Long-term		Current	
	31 Mar 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019
	£000	£000	£000	£000
<b>Financial assets</b>				
Investments:				
<b>Amortised Cost</b>				
NatWest / RBS	2,000	-	4,000	2,000
Lloyds Banking Group	-	-	6,000	2,000
Santander UK	-	-	5,000	2,000
Barclays	-	-	1,000	2,000
Development Bank of Singapore	-	-	-	6,000
Qatar National Bank	-	-	8,000	10,000
Close Brothers Limited	1,000	-	7,000	7,000
Goldman Sachs International	-	-	9,000	6,000
Skipton Building Society	-	-	4,000	-
Leeds Building Society	-	-	-	2,000
Coventry Building Society	-	-	1,000	-
Yorkshire Building Society	-	-	-	1,000
Buckinghamshire CC	-	-	2,000	-
Cash & cash equivalents	-	-	6,513	8,936
<b>FVP&amp;L</b>				
CCLA property Fund	4,995	5,072	-	-
Accrued interest	-	-	316	234
<b>Total investments</b>	<b>7,995</b>	<b>5,072</b>	<b>53,829</b>	<b>49,170</b>
Debtors	23	33	1,875	3,910
<b>Financial liabilities at amortised cost</b>				
Borrowings (all PWLB)	53,180	44,320	-	8,860
Creditors	-	-	4,514	5,170



## 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 2018 Fair Value £000	31 Mar 2019 Fair Value £000
Financial Instrument Revaluation Reserve: CCLA	Level 1	Unadjusted quoted prices in active markets for identical shares	5,047	5,127
<b>Total:</b>			<b>5,047</b>	<b>5,127</b>

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 2018		31 March 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities (PWLB loans)	53,197	68,598	53,197	69,548
Long-term creditors	-	-	-	-
Other Liabilities	1,382	1,382	1,178	1,178
Financial assets at Amortised cost	55,995	56,023	48,147	48,148
Investments at FVOCI	5,047	5,047	5,127	5,127
Long-term debtors	23	23	33	33

The fair values calculated are as follows:

- The fair value of the PWLB loans (£70 million) is calculated using the premature repayment method as at 31 March 2019 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 FVOCI is calculated using the unadjusted quoted prices in active markets for identical shares. (Level 1). As per IFRS9 Available for sale has now been re classified as Fair Value through Profit & Loss. As a result of the statutory override for 5 years this is amended to FVOCI (CCLA property 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 which have been rated "AAA", mmf or equivalent and are Low Volatility NAV (LVNAV), Building societies with Assets greater than £10 billion and other local authorities.

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

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

The Council's maximum exposure to credit risk in relation to its investments in banks and financial institutions of £53 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2019 that this was likely to materialise. The following analysis summarises the risk categories of the Council's financial assets at 31 March 2019.

**Amount at 31 March 2019**

	<b>£000</b>
Deposits with financial institutions:	
AAA rated counterparties	8,000
AA rated counterparties	6,000
A rated counterparties	29,000
Local Authorities	2,000
Part Nationalised Banks	2,000
Building Societies with assets greater than £10 Billion	1,000
Unrated pooled Funds	5,000
<b>Total</b>	<b>53,000</b>

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

The Council does not generally allow credit for customers, such that £611k of the £3.91 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 2018</b>	<b>31 March 2019</b>
	<b>£000</b>	<b>£000</b>
Less than three months	159	285
Three to nine months	84	59
Nine months to one year	100	71
More than one year	137	196
<b>Total</b>	<b>480</b>	<b>611</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.

	31 March 2018	31 March 2019
	£000	£000
Less than one year	-	8,860
Between one and two years	8,860	-
Between two and five years	8,860	8,860
Between six and ten years	-	-
Between eleven and twenty years	17,740	17,740
More than twenty years	17,720	17,720
<b>Total</b>	<b>53,180</b>	<b>53,180</b>

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

## Market Risk

*Interest Rates Risk.* The Council's borrowings are 100% fixed rate and are therefore not subject to fluctuations in interest rates. All investments are cash. Generally investments are at a fixed rate, but to ensure stability and liquidity, Money Market Funds, structured products where there is an interest rate floor and cap or annual rate change, and notice accounts for notice periods of 35 and 95 days are also used. The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the annual budget. Estimates for interest receivable are updated during the year as an integral part of the budget monitoring and planning process. This allows adverse changes to be identified at various times and accommodated within the budget. According to this assessment strategy, at 31 March 2019, 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 £33k.

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

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

## Note 18 - Debtors

31 March 2018		31 March 2019
£000		£000
1,153	Trade Receivables	2,467
529	Prepayments	1,022
3,581	Other Receivable Amounts	3,258
<b>5,263</b>	<b>Total</b>	<b>6,747</b>

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

## Note 19 - Cash and Cash Equivalents

31 March 2018		31 March 2019
£000		£000
781	Cash and Bank balances	931
5,732	Short Term Investments	8,005
<b>6,513</b>	<b>Total Cash and Cash Equivalents</b>	<b>8,936</b>

## Note 20 - Assets Held for Sale

Current		Current
31 March 2018		31 March 2019
£000		£000
0	Balance outstanding at start of year	0
	Assets newly classified as held for sale:	
1,320	- Property Plant and Equipment	3,252
(1,320)	Assets sold	(705)
<b>0</b>	<b>Balance Outstanding year end</b>	<b>2,548</b>

## Note 21 - Creditors

31 March 2018 £000		31 March 2019 £000	
(4,245)	Trade payables	(4,182)	
(8,625)	Other payables	(7,313)	
<b>(12,870)</b>	<b>Total Creditors</b>	<b>(11,495)</b>	

Other payables include NHS, Local Government, Police Authorities and Government bodies.

## Note 21A - Long Term Creditors

31 March 2018 £000		31 March 2019 £000	
(7,600)	s.106 1990 Town & Country Planning Act	(6,866)	
<b>(7,600)</b>	<b>Total Long Term Creditors</b>	<b>(6,866)</b>	

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

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 have been classified as a capital grant.

## Note 22 - Provisions

### Current Provisions

2018/19	Total
	<b>£000</b>
Opening Balance	(1,710)
Increase in provision during year	(1,808)
Utilised during year	644
<b>Closing Balance</b>	<b>(2,874)</b>

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

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 £2.874 million represents the Council's share of the estimated amounts which will be refunded in respect of all business rate liability for 2018/19 and earlier years resulting from successful appeals.

## Note 23 - Usable Reserves

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

## Note 24 - Unusable Reserves

31 March 2018		31 March 2019
£000		£000
(29,972)	Revaluation Reserve	(28,355)
5	Available for Sale Financial Instruments Reserve	0
0	Financial Instruments Revaluation Reserve	(72)
(208,293)	Capital Adjustment Account	(222,570)
19,183	Pension Reserve	27,456
(309)	Collection Fund Adjustment Account	648
133	Accumulated Absences Account	104
<b>(219,253)</b>	<b>Total</b>	<b>(222,789)</b>

### Revaluation Reserve

31 March 2018		31 March 2019
£000		£000
(25,216)	<b>Balance 1 April</b>	(29,972)
(6,631)	Upward revaluation of assets	(3,447)
1,231	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	2,041
<b>(5,400)</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>(1,406)</b>
579	Difference between fair value depreciation and historical cost depreciation	458
66	Accumulated gains on assets sold or scrapped	3
0	Other amounts written off to the Capital Adjustment Account	2,563
<b>644</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>3,023</b>
<b>(29,972)</b>	<b>Balance 31 March</b>	<b>(28,355)</b>



## Available for Sale Financial Instruments Reserve

31 March 2018		31 March 2019
£000		£000
154	<b>Balance 1 April</b>	5
0	Opening balance adjustments on adoption of IFRS9	(5)
<b>154</b>	<b>Revised Opening Balance</b>	<b>0</b>
(148)	Upward revaluation of investments	0
<b>5</b>	<b>Balance 31 March</b>	<b>0</b>

## Financial Instruments Revaluation Reserve

31 March 2018		31 March 2019
£000		£000
0	<b>Balance 1 April</b>	0
0	Opening balance adjustments on adoption of IFRS9	5
<b>0</b>	<b>Revised Opening Balance</b>	<b>5</b>
0	Upward revaluation of investments	(78)
0	Downward revaluation of investments	0
0	Change in impairment loss allowances	0
<b>0</b>	<b>Total Changes in revaluation and impairment</b>	<b>(78)</b>
0	Accumulated gains or losses on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	0
0	Accumulated gains or losses on assets sold and maturing assets written out to the General Fund Balances for financial assets designated to fair value through other comprehensive income	0
0	Other movements	0
<b>0</b>	<b>Balance 31 March</b>	<b>(72)</b>

## Capital Adjustment Account

31 March 2018 £000		31 March 2019 £000
(183,138)	<b>Balance 1 April</b>	(208,293)
5,467	Charges for depreciation and impairment of non-current assets	6,359
(12,754)	Revaluation losses on non-current assets	(1,630)
44	Amortisation of intangible assets	49
734	Revenue expenditure funded from capital under statute	1,193
1,912	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	880
(4,597)	Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	6,851
(644)	Adjusting Amounts written out of the Revaluation Reserve	(3,023)
(5,242)	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	3,827
(10,425)	Use of Capital Receipts Reserve to finance new capital expenditure	(3,398)
(2,861)	Use of Major Repairs Reserve to finance new capital expenditure	(1,613)
(734)	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(2,193)
(199)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(205)
(450)	Capital expenditure charged against the General Fund and HRA balances	(7,026)
(14,669)	<b>Capital financing applied in year:</b>	(14,434)
(3,544)	Borrowing or liabilities met from the Major Repairs Reserve	(3,544)
(1,700)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(140)
0	Other movements	14
<b>(208,293)</b>	<b>Balance 31 March</b>	<b>(222,570)</b>

## Pension Reserve

31 March 2018		31 March 2019
£000		£000
27,159	Balance 1 April	19,183
(9,635)	Remeasurements of the net defined benefit (liability)/asset	6,333
5,560	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	5,584
(3,901)	Employer's pensions contributions and direct payments to pensioners payable in the year	(3,644)
<b>19,183</b>	<b>Balance 31 March</b>	<b>27,456</b>

## Collection Fund Adjustment Account

31 March 2018		31 March 2019
£000		£000
(1,001)	Balance 1 April	(309)
691	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	957
<b>(309)</b>	<b>Balance 31 March</b>	<b>648</b>

## Accumulated Absences Account

31 March 2018		31 March 2019
£000		£000
133	<b>Balance 1 April</b>	133
(133)	Settlement or cancellation of accrual made at the end of the preceding year	(133)
133	Amounts accrued at the end of the current year	104
0	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	(29)
<b>133</b>	<b>Balance 31 March</b>	<b>104</b>

## Note 25 - Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£000</b>		<b>£000</b>
(1,290)	Interest received	(522)
1,652	Interest paid	1,626
<b>362</b>	<b>Total</b>	<b>1,104</b>

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

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£000</b>		<b>£000</b>
(5,467)	Depreciation	(6,359)
12,754	Impairment and downward valuations	1,630
(44)	Amortisation	(49)
(4,701)	(Increase)/decrease in creditors	2,214
96	Increase/(decrease) in debtors	2,122
(1,659)	Movement in pension liability	(1,940)
(1,912)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(880)
1,997	Other non-cash movements charged to the surplus or deficit on provision of services	(1,038)
<b>1,065</b>	<b>Total</b>	<b>(4,300)</b>

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

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£000</b>		<b>£000</b>
2,643	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,639
0	Any other items for which the cash effects are investing or financing cash flows	1,000
<b>2,643</b>	<b>Total</b>	<b>2,639</b>

## Note 26 - Cash Flow from Investing Activities

31 March 2018 £000		31 March 2019 £000
14,900	Purchase of property, plant and equipment, investment property and intangible assets	17,208
10,000	Purchase of short-term and long-term investments	8,000
(2,643)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,639)
(13,000)	Proceeds from short-term and long-term investments	(18,000)
(819)	Other receipts from investing activities	(3,896)
<b>8,439</b>	<b>Net cash flows from investing activities</b>	<b>1,674</b>

## Note 27 - Cash Flow from Financing Activities

31 March 2018 £000		31 March 2019 £000
199	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts	205
2,777	Other payments for financing activities	(1,324)
<b>2,976</b>	<b>Net cash flows from financing activities</b>	<b>(1,119)</b>

## Note 28 - Agency Services

The Council provided the following agency services in 2018/19

- Collection of Penalty Notices for West Sussex County Council created a surplus in the General Fund Accounts of £159k.
- Provision of a payroll service for a number of voluntary organisations and four Parish Councils (no charge is made for this service).

## Note 29 - Members' Allowances

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

31-Mar-18 £'000		31-Mar-19 £'000
420	Allowances	427
11	Expenses	11
<b>431</b>	<b>Total Members' Allowances</b>	<b>438</b>

## Note 30 - Officers' Remuneration

### Senior Officer Remuneration

2018/19		Salary, Fees and Allowances	Expenses Allowances	Compensation for Loss of Office	Pension Contribution	Total
		£'000	£'000	£'000	£'000	£'000
Chief Executive	2018/19	121	1	-	22	144
	2017/18	118	-	-	24	142
Director of Place	2018/19	92	-	-	16	108
	2017/18	90	-	-	16	106
Director of Services	2018/19	93	-	-	16	109
	2017/18	90	-	-	16	106
Group Head - Policy	2018/19	70	-	-	12	82
	2017/18	67	-	-	12	79
Group Head - Council Advice & Monitoring Officer	2018/19	68	-	-	12	80
	2017/18	61	-	-	11	72
Group Head - Corporate Support & S151 Officer	2018/19	77	-	-	14	91
	2017/18	74	-	-	13	87
Group Head - Planning	2018/19	64	-	-	11	75
	2017/18	61	-	-	11	72
Group Head - Technical Services	2018/19	70	-	-	12	82
	2017/18	67	-	-	12	79
Group Head - Economy	2018/19	64	-	-	11	75
	2017/18	61	-	-	11	72
Group Head - Community Wellbeing	2018/19	70	-	-	12	82
	2017/18	67	-	-	12	79
Group Head - Residential Services	2018/19	72	-	-	13	85
	2017/18	41	-	-	7	48
Group Head - Neighbourhood Services	2018/19	72	-	-	13	85
	2017/18	68	-	-	12	80
Total	2018/19	933	1	-	164	1,098
	2017/18	865	-	-	157	1,022

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

The figures for the Group Head of Residential Services was pro-rata in 2017/18 due to the transition period for the new structure, 2018/19 shows a full year.

No Senior Officers were in receipt of bonus payments or benefits in kind for 2018/19.

## Officer Remuneration

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:

	2017/18	2018/19
£50,001 to £55,000	9	8 *
£55,001 to £60,000	5	0
£60,001 to £65,000	0	0
£65,001 to £70,000	2	0
£70,001 to £75,000	0	0
£75,001 to £80,000	4	0
£80,001 to £85,000	0	0
£85,001 to £90,000	0	0
£90,001 to £95,000	1	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	1 **
£115,001 to £120,000	0	0
<b>Total</b>	<b>21</b>	<b>9</b>

2018/19

\* One employee included by virtue of annualised salary

\*\* One employee included by virtue of redundancy pay

2017/18 - Includes twelve employees by virtue of redundancy pay

## Exit Packages

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

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band £'000	
	17/18	18/19	17/18	18/19	17/18	18/19	17/18	18/19
£0-£20,000 *	6	3	0	0	6	3	£63	£15
£20,001-£40,000	8	0	0	0	8	0	£246	£0
£40,000-£60,000	3	1	0	0	3	1	£149	£43
£60,001-£80,000	2	0	0	0	2	0	£131	£0
£80,001-£100,000	2	0	0	0	2	0	£182	£0
£100,001-£150,000	0	2	0	0	0	2	£0	£229
£150,001-£200,000	1	0	0	0	1	0	£171	£0
<b>Total</b>	<b>22</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>22</b>	<b>6</b>	<b>£942</b>	<b>£287</b>

The total cost of £287,000 in the table above includes exit packages that have been charged to the Council's Comprehensive Income & Expenditure Statement in 2018/19 excluding accruals made for redundancies & disclosed in 2017/18. Also included is the 18/19 pension strain to be paid in 19/20.

\* One Officer is included in the banding £0-£20,000 by virtue of additional redundancy payment and pension strain to the 2017/18 disclosure.



## Note 31 - External Audit Costs

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

2017/18		2018/19
£000		£000
<i>Fees payable to Ernst &amp; Young LLP</i>		
57	external audit services carried out by the appointed auditor	44
8	certification of grant claims and returns	10
<b>65</b>	<b>Total</b>	<b>54</b>

## Note 32 - Grant Income

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

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

31 March 2018		31 March 2019
£000		£000
(750)	Revenue Support Grant	(194)
(484)	Benefits Administration Grant	(439)
(192)	Localised Council Tax Support Administration	(178)
(186)	Business Rate Collection Allowance	(185)
(3,677)	New Homes Bonus Grant	(2,733)
(1,735)	S.31 grants paid to compensate for the loss of business rate income	(1,888)
(59)	Individual Electoral Register (IER)	(40)
(282)	Other Non-Ringfenced Grants	(300)
(80)	Homeless Reduction	(70)
0	Leaving EU	(17)
0	Capital Grants and Contributions	(1,000)
<b>(7,446)</b>	<b>Total</b>	<b>(7,044)</b>

## Credited to Services

31 March 2018		31 March 2019
£000		£000
(399)	Community wellbeing	(342)
-	Coast Protection	(152)
-	Housing	(7)
(95)	Crime Reduction	(60)
(636)	Leisure	(773)
(752)	Disabled Facilities Grants	(1,298)
(803)	Economic Regeneration	(185)
(181)	Family Intervention project	(132)
(5)	Fuel poverty	-
(48,819)	Housing Benefit Subsidy	(45,661)
(40)	Neighbourhood Plan	(20)
(304)	Homelessness	(538)
(330)	Elections	-
(329)	Other	(388)
<b>(52,693)</b>	<b>Total</b>	<b>(49,556)</b>

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

31 March 2018		31 March 2019
£000		£000
(1,484)	Disabled Facilities Grant	(1,844)
0	Developers' Contributions	(19)
0	Coastal Revival Fund	(44)
<b>(1,484)</b>	<b>Total</b>	<b>(1,907)</b>

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

31 March 2018		31 March 2019
£000		£000
0	Developers' Contributions	(2,473)
<b>0</b>	<b>Total</b>	<b>(2,473)</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 have been classified as a capital grant. The classification of the liability between current and long term is based upon the repayment terms contained within the planning agreement with the developer.

## **Note 33 - Related Parties**

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allow readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### **Central Government**

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grants received from Government Departments are set out in Note 13. Grant receipts outstanding at 31 March 2019 are shown in Note 18 (Central Government bodies).

### **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2018/19 is shown in Note 29. No members declared any transactions for 2018/19 that fall within the related party definition.

### **Officers**

The Council's Chief Executive paid off his previous car loan and took a new car loan out and currently has £11k outstanding. Repayments amounting to £2k were made during 2018/19. No other transactions with senior officers fall within the related party definition.

### **Other Public Bodies**

Precepts and levies totalling £4.483 million were paid as disclosed in Note 11.

### **Entities Controlled or Significantly Influenced by the Council**

There are no entities meeting the definition of related parties.

## Note 34 - Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

### Capital Expenditure and Capital Financing

31 March 2018		31 March 2019	
£000		£000	
52,837	Opening Capital Financing Requirement	51,807	
	Capital Investment:		
14,460	Property Plant and Equipment	16,696	
1,919	Investment Property	0	
70	Intangible Assets	0	
734	Revenue Expenditure Funded from Capital Under Statute	1,193	
<b>17,183</b>	<b>Total Capital Spending</b>	<b>17,889</b>	
	Sources of Finance:		
(10,425)	Capital receipts	(3,398)	
(734)	Government Grants and other contributions	(2,193)	
(2,861)	Major repairs reserve	(1,613)	
	Sums set aside from revenue:		
(450)	- Direct revenue contributions	(7,026)	
(3,544)	- Borrowing or liabilities met from the Major Repairs Reserve	(3,544)	
(199)	- Minimum revenue provision	(205)	
<b>(18,213)</b>	<b>Total Sources of Finance</b>	<b>(17,978)</b>	
<b>51,807</b>	<b>Closing Capital Financing Requirement</b>	<b>51,717</b>	

## Explanation of movements in year

31 March 2018		31 March 2019	
£000		£000	
2,340	Increase in underlying need to borrow (unsupported by government financial assistance)	3,660	
372	Assets acquired under finance leases	0	
(3,743)	Other movements	(3,749)	
<b>(1,030)</b>	<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(89)</b>	

A significant part of the £3,660k increase in the underlying need to borrow is a result of timing differences between the funding of capital expenditure from capital receipts and the receipt itself, which is not due to be received until 2019/20. As the receipt is imminent no consideration has been given to MRP as the receipt itself will remove the liability. The remainder of the £3,660k relates to HRA expenditure where there is no MRP requirement.

## Note 35 - Leases

### Council as Lessee

#### Finance Leases

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

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

31 Mar 2018		31 Mar 2019	
£000		£000	
1,366	Vehicles, Plant & Equipment	1,151	
<b>1,366</b>	<b>Total</b>	<b>1,151</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 2018		31 Mar 2019
£000		£000
Finance lease liabilities (net present value of minimum lease payments):		
205	current	209
1,177	non-current	968
121	Finance costs payable in future years	91
<b>1,503</b>	<b>Minimum lease payments</b>	<b>1,268</b>

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

Minimum Lease Payments			Finance Lease Liabilities	
31 Mar 2018	31 Mar 2019		31 Mar 2018	31 Mar 2019
£000	£000		£000	£000
235	235	Not later than one year	205	210
916	775	Later than one year and not later than five years	843	720
352	258	Later than five years	334	248
<b>1,503</b>	<b>1,268</b>	<b>Total</b>	<b>1,382</b>	<b>1,178</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:

31 Mar 2018		31 Mar 2019
£000		£000
90	Not later than one year	85
241	Later than one year and not later than five years	126
28	Later than five years	26
<b>359</b>	<b>Total</b>	<b>237</b>

The expenditure charged to the Comprehensive Income and Expenditure Statement in relation to these leases in 2018/19 was £79k (2017/18 £100k) representing the

## Council as Lessor

### Finance Leases

The Council has no currently determined finance leases as lessor.

### Operating Leases

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

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

31 Mar 2018		31 Mar 2019
£000		£000
835	Not later than one year	828
2,549	Later than one year and not later than five years	2,715
9,358	Later than five years	9,743
<b>12,742</b>	<b>Total</b>	<b>13,286</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 2018/19.

## Note 37 - Termination Benefits

The Council terminated the contracts of a number of employees in 2018/19 as part of the process of achieving required budget savings, incurring redundancy liabilities of £146,000. Payments were made against the 2017/18 provision of £39,000 and a further liability amounting to £107,000 was incurred in 2018/19.

Total liabilities include additional pension strain of £193,000, of which, £51,000 was disclosed in the 2017/18 Accounts. See Officers' Remuneration note for the number of exit packages and the total cost per band.

## **Note 38 - Defined Benefit Pension Scheme**

### **Participation in Pension Schemes**

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

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by West Sussex County Council - this is a funded defined benefits scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities and cash has to be generated to meet actual pensions payments as they eventually fall due.

The West Sussex County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Panel of West Sussex County Council. Policy is determined in accordance with the Pensions Fund Regulations. The Pensions Panel is responsible to the Governance Committee for the appointment of professional and specialist investment advisers and managers on a consultancy basis.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

### **Discretionary Post-retirement Benefits**

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

### **Transactions Relating to Post-employment Benefits**

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:



Local Government Pension Scheme		Discretionary Benefits arrangements	
2017/18	2018/19	2017/18	2018/19
£000	£000	£000	£000

## Comprehensive Income and Expenditure Statement -

### Cost of services:

Service cost comprising:

* current service cost	4,290	4,093	-	-
* past service costs (including curtailments)	550	955	-	-
* (gain)/loss from settlements	-	-	-	-

Financing and Investment Income and Expenditure:

* Net interest expense	720	536	-	-
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Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services	<b>5,560</b>	<b>5,584</b>	<b>-</b>	<b>-</b>
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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)	(6,745)	(6,982)	-	-
* Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-
* Actuarial gains and losses arising on changes in financial assumptions	(2,953)	13,163	-	-
* Other experience	158	83	(242)	108

Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement	<b>(3,980)</b>	<b>11,848</b>	<b>(242)</b>	<b>108</b>
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### Movement in Reserves Statement

reversal of net charges made to the Surplus or deficit on * the Provision of Services for post employment benefits in accordance with the Code	5,560	5,584	-	-
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Actual amount charged against the General Fund Balance for pensions in the year:

* employer's contributions payable to scheme	3,500	3,418	-	-
* retirement benefits payable to pensioners	-	-	254	265

## 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		Discretionary	
	Pension Scheme		Benefits	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
Present value of the defined benefit obligation	(175,099)	(193,344)	(4,346)	(4,454)
Fair value of plan assets	160,262	170,342	-	-
<b>Net liability arising from defined benefit obligation</b>	<b>(14,837)</b>	<b>(23,002)</b>	<b>(4,346)</b>	<b>(4,454)</b>

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

	Local Government		Discretionary	
	Pension Scheme		Benefits	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
Opening fair value of scheme assets	150,352	160,262	-	-
Interest income	3,897	4,308	-	-
Remeasurement gain/(loss):				
Return on plan assets excluding the amount included in the net interest expense	6,745	6,982	-	-
Other	-	-	-	-
Contributions from employer	3,500	3,418	254	265
Contributions from employees into the scheme	698	688	-	-
Benefits paid	(4,930)	(5,316)	(254)	(265)
Other	-	-	-	-
<b>Closing fair value of scheme assets</b>	<b>160,262</b>	<b>170,342</b>	<b>-</b>	<b>-</b>

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

	Funded liabilities		Unfunded liabilities	
	Local Government		Discretionary	
	Pension Scheme		Benefits	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
Opening balance at 1 April	172,923	175,099	4,588	4,346
Current service cost	4,290	4,093	-	-
Interest cost	4,617	4,844	-	-
Contributions by scheme participants	698	688	-	-
Remeasurement (gains) and losses:				
Actuarial gains/losses arising from changes in demographic assumptions	-	-	-	-
Actuarial gains/losses arising from changes in financial assumptions	(2,953)	13,163	-	-
Other	(96)	(182)	12	373
Past service cost	550	955	-	-
Benefits paid	(4,930)	(5,316)	(254)	(265)
Other	-	-	-	-
<b>Closing balance at 31 March</b>	<b>175,099</b>	<b>193,344</b>	<b>4,346</b>	<b>4,454</b>

## Local Government Pension Scheme assets comprised:

	Fair value of scheme assets	Fair value of scheme assets
	2017/18	2018/19
	£000	£000
<b>Cash and cash equivalents</b>	6,611	4,695
<b>Equity securities by industry type:</b>		
Consumer	7,128	16,593
Manufacturing	9,279	9,790
Energy and utilities	4,688	5,186
Financial institutions	12,146	20,437
Health and care	7,865	8,198
Information technology	16,489	11,030
Other	20,386	9,733
<b>Debt securities:</b>		
UK Government	4,466	4,833
<b>Private Equity - All categories</b>	5,545	4,732
<b>Real estate:</b>		
UK property	11,919	15,860
Overseas property	-	-
<b>Investment funds and unit trusts:</b>		
Equities	-	-
Bonds	51,874	57,437
Other	1,866	1,818
<b>Totals</b>	<b>160,262</b>	<b>170,342</b>

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

## Basis for Estimating Assets and Liabilities

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

	Local Government		Discretionary	
	Pension Scheme		Benefits	
	2017/18	2018/19	2017/18	2018/19
<b>Long-term expected rate of return on assets in the scheme:</b>				
Equity investments	7.1%	7.1%	-	-
Bonds	7.1%	7.1%	-	-
Property	7.1%	7.1%	-	-
Cash	7.1%	7.1%	-	-
Mortality assumptions:				
Longevity at 65 for current pensioners:				
* Men		23.6 years		23.6 years
* Women		25.0 years		25.0 years
Longevity at 65 for future pensioners:				
* Men		26.0 years		26.0 years
* Women		27.8 years		27.8 years
Rate of inflation		3.5%		3.5%
Rate of increase in salaries		3.2%		3.2%
Rate of increase in pensions (CPI)		2.5%		2.5%
Rate for discounting scheme liabilities		2.4%		2.4%

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 2019

	Approx. % increase to employer liability	Approx. monetary amount (£000)
0.5% decrease in Real Discount Rate	9.0%	18,097
0.5% increase in the Salary Increase Rate	1.0%	2,609
0.5% increase in the Pension Increase Rate	8.0%	15,176

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

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

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

The Council expects to pay £3.326 million for employer contributions to the scheme in 2019/20.

The weighted average duration of the defined benefit obligation for scheme members is 17.4 years for 2018/19.

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

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme. In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. Therefore, LGPS

benefits accrued from 2014 may need to be enhanced so that all eligible members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. A full description of the data, methodology and assumptions underlying these estimates is given in GAD's paper, dated 10 June 2019.

The West Sussex County Council Pension Fund's actuary has adjusted GAD's estimate to better reflect the Fund's local assumptions, particularly those for salary increases and withdrawal rates. The revised estimate results in around a 1% increase in active member liabilities as at 31 March 2019 which results in an increase of approximately £805k.

## **GMP**

Guaranteed minimum pension (GMP) was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.

The Fund's actuary has carried out calculations in order to estimate the impact that the GMP indexation changes will have on the pension fund liabilities. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution to all members reaching state pension age from 6 April 2016 onwards. The estimated impact of GMP indexation is to increase the total liabilities by approximately £131k.

## Note 39 - Contingent Liabilities

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

The Council has entered into an agreement with the Government to retain the additional receipts generated by the relaxation of the Right to Buy discount rules. Under the terms of this agreement these "1 for 1 replacement" receipts can only be used for the provision of new social housing, and the Council must match every £30 of receipts used with £70 of its own funding. A further condition of the agreement is that receipts must be spent within three years, failing which they must be returned to the Government plus interest at 4% above base rate. As at 31 March 2019 the Council held £2.791m of unused "1 for 1 replacement" receipts. One of the approved priorities of the Council's Housing Revenue Account Business Plan is a significant new development programme and the implementation and phasing of this programme will be a key factor in determining whether or not the Council spends its unused receipts within the required time scale.



## Housing Revenue Account Income and Expenditure Statement

31 March 2018		31 March 2019
£000		£000
<b>Expenditure</b>		
4,485	Repairs & Maintenance	4,446
4,433	Supervision & Management	4,563
177	Rents, Rates, Taxes and other charges	156
(10,292)	Depreciation, impairments and revaluation losses of non-current assets	(1,783)
27	Movement in the allowance for bad debts	120
<b>(1,170)</b>	<b>Total Expenditure</b>	<b>7,500</b>
<b>Income</b>		
(15,511)	Dwelling rents	(15,358)
(431)	Non-dwelling rents	(436)
(639)	Charges for services and facilities	(685)
0	Other	(6)
<b>(16,580)</b>	<b>Total Income</b>	<b>(16,484)</b>
<b>(17,751)</b>	<b>Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement</b>	<b>(8,984)</b>
(762)	(Gains)/loss on sale of HRA Fixed Assets	(756)
1,596	Interest Payable and Similar Charges	1,596
(50)	HRA Interest and Investment Income	(54)
<b>(16,966)</b>	<b>(Surplus) or Deficit for Year on HRA Services</b>	<b>(8,198)</b>

## Movement on the HRA Statement

31 March 2018 £000	Movement on the HRA Statement	31 March 2019 £000
(6,988)	Balance on the HRA at the end of the previous year	(6,625)
<b>(6,988)</b>	<b>Revised opening balance</b>	<b>(6,625)</b>
(16,966)	(Surplus) or Deficit on the HRA Income and Expenditure Statement	(8,198)
17,328	Adjustments between accounting basis and funding basis under statute	7,594
<b>363</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>	<b>(604)</b>
363	(Increase) or decrease on the HRA for the year	(604)
<b>(6,625)</b>	<b>Balance on the HRA at the end of the current year</b>	<b>(7,229)</b>

31 March 2018 £000	Adjustment between accounting basis	31 March 2019 £000
10,292	Transfers to/(from) the Capital Adjustment Account	1,783
762	Gain or (loss) on sale of non-current assets	756
49	Contributions to or (from) the Pension Reserve	67
6,226	Transfers to/(from) Major Repairs Reserve	4,984
<b>17,329</b>	<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>	<b>7,593</b>

## HRA Property, Plant and Equipment

### Movements to 31 March 2019

	<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 2018</b>	208,182	3,766	2,027	2,687	<b>216,662</b>
Additions	2,784	0	324	1,017	<b>4,125</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	2	0	0	<b>2</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	1,843	57	0	0	<b>1,900</b>
Derecognition – other	0	0	0	0	<b>0</b>
Reclassifications and transfers	3,704	0	0	(3,704)	<b>0</b>
Assets reclassified (to)/from Held for Sale	(705)	0	0	0	<b>(705)</b>
<b>at 31 March 2019</b>	<b>215,808</b>	<b>3,824</b>	<b>2,351</b>	<b>0</b>	<b>221,984</b>
<b>Accumulated Depreciation and Impairment</b>					
<b>at 1 April 2018</b>	0	0	(169)	0	<b>(169)</b>
Depreciation charge	(4,845)	(38)	(101)	0	<b>(4,984)</b>
Depreciation written out to the Revaluation Reserve	0	2	0	0	<b>2</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	4,845	32	0	0	<b>4,877</b>
Derecognition – other	0	0	0	0	<b>0</b>
<b>at 31 March 2019</b>	<b>0</b>	<b>(4)</b>	<b>(270)</b>	<b>0</b>	<b>(274)</b>
<b>Net Book Value</b>					
<b>at 31 March 2019</b>	<b>215,808</b>	<b>3,820</b>	<b>2,081</b>	<b>0</b>	<b>221,710</b>
<b>at 31 March 2018</b>	<b>208,182</b>	<b>3,766</b>	<b>1,859</b>	<b>2,687</b>	<b>216,494</b>

## Movements to 31 March 2018

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

The vacant possession value of dwellings within the Council's Housing Revenue Account as at 01 April 2018 was £654 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

31st March 2018		31st March 2019	
Total		Total	
£000		£000	
	Balance at start of year:		
91	· Gross carrying amounts	91	
(36)	· Accumulated amortisation	(55)	
55	Net carrying amount at start of year	36	
	Additions:		
(18)	Amortisation for the period	(9)	
36	Net carrying amount at end of year	27	
	Comprising:		
91	· Gross carrying amounts	91	
(55)	· Accumulated amortisation	(64)	
36	Net carrying amount at end of year	27	

## HRA Assets Held for Sale

Current 31 March 2018 £000		Current 31 March 2019 £000	
0	Balance outstanding at start of year	0	
	Assets newly classified as held for sale		
1,320	- Property Plant and Equipment	705	
(1,320)	Assets sold	(705)	
<b>0</b>	<b>Total Cash and Cash Equivalents</b>	<b>0</b>	

## Notes to the HRA Account

### Housing Stock

31 March 2018		31 March 2019	
No.	Dwelling type	No.	
171	Bedsits	171	
1,560	Flats	1,570	
1,604	Houses / bungalows	1,616	
2	Hostels	2	
<b>3,337</b>	<b>Total</b>	<b>3,359</b>	

### Housing Revenue Account Capital Expenditure

31 March 2018		31 March 2019	
£000		£000	
	<b>Capital investment</b>		
3,233	Operational assets	3,108	
2,993	Non-operational assets	1,017	
0	Other	0	
<b>6,226</b>	<b>Total capital investment</b>	<b>4,125</b>	

	<b>Sources of funding</b>		
(1,025)	Capital Receipts	(775)	
(2,861)	Major Repairs Reserve	(1,613)	
(2,340)	Unfinanced	(1,737)	
<b>(6,226)</b>	<b>Total funding</b>	<b>(4,125)</b>	

### Rent Arrears

Tenants' arrears at 31 March 2019 were £689k (previous year £515k). The provision for doubtful debts amounted to £122k (previous year £60k).

### Depreciation and Impairment of Non-Current Assets

31 March 2018		31 March 2019	
Depreciation £000	Impairment £000	Depreciation £000	Impairment £000
(3,613)	0	(4,845)	0
(39)	0	(38)	0
(74)	0	(101)	0
<b>(3,726)</b>	<b>0</b>	<b>(4,984)</b>	<b>0</b>

## Transactions relating to retirement benefits

31 March 2018		31 March 2019
£000		£000
	(49) Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	(67)
	<b>(49) Movement on Pension Reserve</b>	<b>(67)</b>

## Total Capital Receipts Generated during the year

31 March 2018		31 March 2019
£000		£000
0	Land	0
(2,457)	Council Houses	(1,428)
0	Other Property	(33)
<b>(2,457)</b>	<b>Total</b>	<b>(1,461)</b>

## Collection Fund

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

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
<b>(3,160)</b>	<b>Balance at 1 April brought forward</b>	<b>(971)</b>
	<b>Income</b>	
	Local Taxes:	
98,981	Net Council Tax	105,610
36,750	Net business rates	37,352
-	Transfer for former CTB	(17)
	Transitional protection payments (NNDR)	137
<b>135,731</b>	<b>Total income</b>	<b>143,082</b>
	<b>Expenditure</b>	
	<b>Council Tax Demands and Precepts:</b>	
74,652	West Sussex County Council	79,596
9,151	Sussex Police and Crime Commissioner	10,021
14,244	Arun District Council	14,926
-	Interest	-
	<b>Share of business rate income</b>	
3,529	West Sussex County Council	3,676
17,644	Central Government	18,380
14,116	Arun District Council	14,704
308	Payments to Central Government re transitional protection	-
186	Transfer to General Fund re cost of Business Rate collection	185
	<b>Shares of Fund surplus or (deficit) - Council Tax:</b>	-
897	West Sussex County Council	404
111	Sussex Police and Crime Commissioner	49
172	Arun District Council	77
	<b>Shares of Fund surplus or (deficit) - Business rates:</b>	-
83	West Sussex County Council	(7)
414	Central Government	(36)
332	Arun District Council	(29)
	Bad and doubtful debts - Council Tax:	-
210	Written off	(19)
272	Provision adjustments	107
	Bad and doubtful debts - Business rates:	-
146	Written off	15
66	Provision adjustments	237
	Appeals - Business rates:	-
2,128	Use of provision	(644)
(741)	Provision adjustments	3,554
<b>137,920</b>	<b>Total Expenditure</b>	<b>145,196</b>
<b>2,189</b>	<b>(Surplus) / deficit for year</b>	<b>2,114</b>
<b>(971)</b>	<b>Balance at 31 March carried forward</b>	<b>1,143</b>



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

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
(330)	Government	943
(303)	West Sussex County Council	(374)
(29)	Sussex Police and Crime Commissioner	(75)
(309)	Arun District Council	649
<b>(971)</b>	<b>Total</b>	<b>1,143</b>

### **Analysis of movement on Collection Fund balance**

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
	(Surplus) / deficit for year:	
728	Council Tax	(432)
1,461	Business rates	2,546
<b>2,189</b>	<b>Total</b>	<b>2,114</b>
	Balance at 1 April brought forward	
(1,039)	Council Tax	(311)
(2,121)	Business rates	(660)
<b>(3,160)</b>	<b>Total</b>	<b>(971)</b>
	Balance at 31 March carried forward	
(311)	Council Tax	(743)
(660)	Business rates	1,886
<b>(971)</b>	<b>Total</b>	<b>1,143</b>

## Notes to the Collection Fund

### 1. Council Tax Base

	2017/18	2018/19
Equivalent Valuation Band D properties in:		
Valuation Band A	3,133	3,237
Valuation Band B	6,755	6,904
Valuation Band C	13,790	14,036
Valuation Band D	12,912	13,109
Valuation Band E	11,086	11,210
Valuation Band F	7,560	7,670
Valuation Band G	4,127	4,138
Valuation Band H	452	463
<b>Total Band D Equivalents</b>	<b>59,815</b>	<b>60,767</b>
Allowance for non-collection 0.6%	(359)	(365)
<b>Tax Base for year</b>	<b>59,456</b>	<b>60,402</b>

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

	2017/18	2018/19
Valuation Band A	£1,099.39	£1,153.87
Valuation Band B	£1,282.62	£1,346.18
Valuation Band C	£1,465.85	£1,538.49
Valuation Band D	£1,649.08	£1,730.80
Valuation Band E	£2,015.54	£2,115.42
Valuation Band F	£2,382.00	£2,500.04
Valuation Band G	£2,748.47	£2,884.67
Valuation Band H	£3,298.16	£3,461.60

### 3. General Statistics

	2017/18	2018/19
Rateable value of non-domestic properties at 31 March	£98.1m	£98.2m
Number of non-domestic properties at 31 March	4,861	4,863
Non-domestic rating multiplier: small businesses	0.466	0.480
Non-domestic rating multiplier: other	0.479	0.493
Average Council Tax for a Band D property	£1,649	£1,731

## 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.

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

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

### **Support Services Costs/Charges**

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

### **Tangible Fixed Asset**

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

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

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

### **Unobservable Inputs**

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

### **Unusable Reserve**

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

### **Usable Reserve**

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

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30 July 2019

Please ask for:

Our Ref: AP/sjz

01903 737558

Dear Kevin

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 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Arun District Council as of 31 March 2019 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 2018/19.

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

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

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

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
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

*Continued...*

performance and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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

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

*Continued...*

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

#### **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. Subsequent Events**

1. Other than the events described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **F. Other information**

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

*Continued...*



**G. Comparative information – corresponding financial information**

1. The figures above the line for 'Cost of Services' have been restated for the 2017/18 comparator year to reflect the Council's revised portfolio structure between Corporate Support Group and Residential Services.
2. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

**H. Ownership of Assets**

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

**I. Reserves**

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

**J. Use of the Work of a Specialist – Actuary**

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of the net 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.

**K. Use of the Work of a Specialist – Property valuers**

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investment property and operational land and buildings 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.

*Continued...*

**L. Estimate – NNDR appeals and other provisions**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of provisions (including the NNDR appeals provision) appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

**M. Estimates - Valuation of Council land and buildings estimate**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the valuation of land and buildings estimate appropriately reflect our intent and ability to use and maintain these assets on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events.

**N. Estimate – Pensions Valuation Estimate**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the pensions valuation estimate appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

**O. 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 sincerely

Alan Peach  
Group Head of Corporate Support  
(S151 Officer)

Councillor Inna Erskine  
Chair of Audit & Governance Committee

## AGENDA ITEM NO.

### **ARUN DISTRICT COUNCIL**

#### **REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2019**

#### **PART A : REPORT**

<b>SUBJECT:</b> Annual Governance Statement 2018/19 and Code of Corporate Governance 2019/20
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<b>REPORT AUTHOR:</b> Stephen Pearse, Internal Audit Manager <b>DATE:</b> July 2019 <b>EXTN:</b> 37561 <b>PORTFOLIO AREA:</b> Corporate Support
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#### **EXECUTIVE SUMMARY:**

To present the Annual Governance Statement for 2018/19 for the Committee's approval, supported by the updated local Code of Corporate Governance

#### **RECOMMENDATIONS:**

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

- endorse the minor change to the local Code of Corporate Governance
- approve the Council's Annual Governance Statement for 2018/19

#### **1. BACKGROUND:**

##### **1.1 BACKGROUND**

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

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

The Annual Governance Statement (AGS) is based upon CIPFA best practice to meet the requirements of the Regulations. As reported to the Committee in 2017, CIPFA issued its new Delivering Good Governance in Local Government: Framework and associated Guidance Note in 2016 and this Framework now forms the basis for AGS reporting and for the Council's local Code of Corporate Governance.

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

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

In preparing the current document previously agreed wording has been used from the last AGS and additional wording / updates have been applied to reflect relevant changes and progress made by the Council in 2018/19. Sections where changes have been made are highlighted (shaded) in the document.

The local Code of Corporate Governance has only one minor change proposed.

The Annual Governance Statement is provided for the Committee's approval. (The document is also signed by the Chief Executive Officer and the Leader of the Council and the final version will accompany the Annual Accounts of the Council which will be reviewed and approved on 30<sup>th</sup> July).

## 1.2 POINTS TO NOTE

As it has been difficult to fully align meetings of the Committee with the revised accounting timescales, the draft version of the document has not been presented to the Committee before 31<sup>st</sup> May.

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

It is proposed that the Committee endorses the minor change to the local Code of Corporate Governance and approves the Council's Annual Governance Statement for 2018/19

## 3. **OPTIONS:**

To endorse the minor change to the local Code of Corporate Governance and approve the Council's Annual Governance Statement for 2018/19, or not

## 4. **CONSULTATION:**

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

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓

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

<b>7. REASON FOR THE DECISION:</b>  The Committee endorses the minor change to the local Code of Corporate Governance and approves the Council's Annual Governance Statement for 2018/19
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<b>8. BACKGROUND PAPERS:</b>  N/A
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# Annual Governance Statement

## 2018/19



## **Scope of Responsibility**

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

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

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

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

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

This document is the Council’s Annual Governance Statement (AGS), relating to the internal control environment in place covering the 2018/19 financial year and the period to 31<sup>st</sup> May, during which the Council’s Annual Accounts are prepared. (Under the changed Regulations, the Accounts are approved by the Council by the end of July, following review by the appointed external auditors).

## **The Council’s Governance Framework**

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

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

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

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

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

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

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

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

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

The Equalities & Diversity framework (and associated Human Resources policies) sets the tone of the Council's respect agenda, with a new Equality & Diversity Policy adopted in 2014 (to be reviewed in 2019/20). 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 will now be repeated annually. Staff and Unison were consulted on the results and the Corporate Management Team (CMT) has agreed to progress an action plan to improve 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 (which is currently under review, for reissue 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. Conduct of Members is monitored by a local Standards Committee (whose membership includes independent representatives), which also investigates any allegations of misconduct by Members, and responsibilities have been reviewed to align them with the new local Code.

The Council continues to operate to a 'Cabinet model', under the provisions of the Local Government Act 2000. The Council's Constitution provides clear guidance on the roles and responsibilities of the Leader, Cabinet portfolio holders, Chief Executive and Senior Officers. This is reviewed by the Monitoring Officer on a regular basis and proposed changes to the Constitution are considered by the Constitution Working Party (of Members), prior to recommending adoption by Full Council. (A diagrammatic representation of how the various stakeholders in the governance process interact is included as Appendix 1 to this document).

At the District Elections held in May 2019, the Council moved to No Overall Control (with Liberal Democrats as the largest party), having previously been under Conservative control. This may mean that current Council priorities, strategies and initiatives are subject to review and change.

The Constitution also contains details of the authority's scheme of delegation and Article 12 identifies the roles and responsibilities of Senior Officers of the Council, with specific responsibilities also incorporated into individual job descriptions. The Leader, the Cabinet and the Committee Chairmen and their deputies receive briefings from Senior Officers on a regular basis, including financial, legal and technical advice.

Review of the Council's Constitution continued in 2018/19 and included agreement of revised terms of reference for the Cabinet / Committees and updates to the Officer Scheme of Delegation. Review and update of the remaining sections will be completed in 2019.

The Council takes the prevention of fraud, corruption and maladministration very seriously and has the following policies in place, which aim to prevent or deal with such occurrences:-

- Anti-Fraud, Corruption & Bribery Policy (updated to include the requirements of the Bribery Act 2011)
- Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998)
- HR policies regarding discipline of staff
- Registers of Interests for Members and staff.

The Council has assessed the risk of fraud in its operations, and the ongoing counter-fraud activities undertaken, against the CIPFA 'Code of practice on managing the risk of fraud and corruption', the updated 'Fighting Fraud & Corruption Locally' strategy, the UK Anti-Corruption Plan and general / professional best practice. It has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. An annual Counter-Fraud Report is provided to the Audit & Governance Committee and current / future risks are monitored.

The Council is committed to the highest possible standards of openness, probity and accountability. It has a published Whistleblowing Policy, which aims to encourage Officers, contractors and members of the public to report any instances of unlawful conduct, health and safety risks, damage to the environment and possible fraud, irregularity or unauthorised use of Council funds.

A Corporate Complaints procedure is in place and the forms and guidance are available on the Council's website. Results of complaints which have been investigated are, where appropriate, used to drive service improvement and are reported on an annual basis to the Overview Select Committee, including any that have been referred to the [Local Government and Social Care Ombudsman](#).

In August 2018, the Regulator for Social Housing (RSH) determined that the Council had breached the Home Standard, specifically in relation to the failure to meet statutory Health & Safety requirements in respect of fire and water hygiene in relation to the Council's duties as a landlord to tenants and housing schemes. The Regulatory Notice was published by the RSH and advised by the Council to tenants and Members. The Council's senior management and Housing Department have agreed an action plan with the Regulator which will be monitored on a monthly basis with the target of being compliant by November 2019. This will cover 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. As part of the ongoing Housing Department restructure, appropriate job roles will be confirmed / created to ensure future compliance and departmental policies and staff training are also being reviewed.

## **B. Ensuring openness and comprehensive stakeholder engagement**

The Council's Constitution sets out how the Council operates and the process for policy and decision-making. Certain decisions, identified in the Council's Constitution, can only be taken by the Full Council. The Constitution also sets out what are defined as 'key decisions'. These are made by the executive body, being the Leader and Cabinet, with the overall policy and budgetary framework approved by Full Council. Any decisions the executive wishes to take outside of this framework must be referred to the Full Council. Key decisions to be taken over the ensuing months are set out in the Council's Forward Plan, which is published on the Council's website. Reports presented to Cabinet, Committees and Full Council are generally reviewed on a risk / professional basis by Legal Services and Finance before being

presented and appropriate Officers attend Committees in order to answer specific queries raised by Members.

The Council aims to ensure that clear channels of communication are established with all areas of the community and other stakeholders, ensuring accountability and encouraging open communication.

The Council's publication 'Arun Times' is distributed to all residents (currently twice-yearly) and is available on the Council's website. The website contains key published information and has been significantly re-developed to best serve the needs of the public. A new 5-year ICT Service Strategy was approved by Cabinet in January 2019 which includes elements of digital delivery. CMT have had initial discussions on how to move our digital agenda forward at Strategic Planning Meetings. Further discussions on our digital approach are planned to lead into our 2020/21 budget preparation and the savings / efficiency plan.

Full Council, Cabinet and Committee meetings are held in public, with the press and public only excluded when a report is presented as an 'exempt' item in accordance with Part 1 of Schedule 12A to the Local Government Act 1972. The two Member Working Groups also meet in public under the current scrutiny arrangements. Meeting agenda and public supporting documents are published at least five clear days in advance of meetings and made available at Council offices and on the website. Members of the public are also allowed to speak and ask questions at Full Council and Cabinet meetings, under the Rules of Procedure contained in the Constitution.

The ModernGov meeting management system is in the process of being 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.

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. In 2018, the Council commenced webcasting of all Development Control Committee meetings (with recordings accessible via the Council's website) and Members will consider whether other key meetings merit the costs of live web streaming via the internet in 2020.

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 with regard to concerns over policing, crime and anti-social behaviour in the District. Further to a meeting on policing priorities with the Sussex Police & Crime Commissioner in January 2018, members of the Overview Select Committee (OSC) received a presentation from the new West Sussex Police Divisional Commander in September on the Sussex Police Transformation Strategy 2018-22. In addition, the Cabinet Member for Community

Wellbeing attends meetings of the Sussex Police & Crime Panel and regularly briefs the OSC.

The Council's priorities and plans contained in 'Your Council 2013-2017' (and now extended for the period 2018-2022) were drawn up with the involvement of a wide range of consultees including staff, Members and the general public.

The Council engages in public consultation exercises, with a number undertaken recently in relation to current and future developments e.g. (Planning) Statement of Community Involvement, Community Infrastructure Levy draft charging schedule, Hothamton (Pavilion) Park and future Council Tax Reduction Scheme (CTRS) proposals.

Arun gathers views from its residents in a number of ways, which helps to inform the priorities adopted by the Council and to identify the views of residents on proposals for new or changed services, projects and initiatives being considered by the Council. Key 'customer satisfaction' indicators are also included in the Council's Corporate Plan and survey information is published on the Council's website. The survey mechanisms in use continue to evolve and it is intended that more future consultation will be undertaken via the internet.

The Council also has agreed and published a Petitions Scheme, allowing the public to raise issues of concern with a formal response procedure to be followed by the Council. Details of the use of the scheme and petitions received are published on the Council's website.

### **C. Defining outcomes in terms of sustainable economic, social and environmental benefits**

The Council aims to deliver high quality services that provide value for money and best fit the needs and priorities of the local community.

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

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

In 2018/19, revised Corporate Plan and Service Delivery Plan indicators to support achievement of these themes was approved for the period 2018-2022.

Within these three themes, the Council will deliver services and progress initiatives for improvement and change to make things better for:-

- our residents and everyone who visits this area
- our businesses
- those people who need the Council to step up and help them when it counts.

Year on year, the Council has faced additional pressure to achieve cost savings without impacting the delivery of important front-line services. Further government

funding reductions are anticipated, but the progress of the 2020 Vision initiative and careful financial management have meant the Council is still currently able to present a balanced Budget.

Value for money continues to be a key factor, with the Council looking to reduce costs and improve efficiency, with significant progress also being made on specific initiatives e.g. by specialist officers in respect of:-

- the identification of empty homes and returning them to permanent use, with the Council benefiting financially from New Homes Bonus provisions and the area from additional housing stock
- the detection of housing fraud, with a number of Council properties being recovered. This benefits the Council in lowering payments for emergency accommodation and restores the properties for allocation to residents in the greatest need
- the agreement of a Property Investment Strategy, allowing the re-investment of a proportion of funds from land and property sales by the Council. This will enable the Council to consider capital investment in order to create a long-term revenue stream at higher rates of return than traditional investments. (In 2018/19, the sale or redevelopment of several Council-owned sites has progressed or is under consideration).

The Council also continues to consider the impact on residents of the Welfare Reform Act 2012 and of central government changes to the social housing regime and relevant strategies and policies have been reviewed and updated. Funds have also been allocated by the Council to better address homelessness issues, which includes building / acquiring additional properties in order to provide quality accommodation for emergency cases, with a view to reducing bed and breakfast accommodation costs (although additional funds were also provided for this in 2018/19).

The Council is committed to working with others to bring about real change for the benefit of the community. It already has a number of joint working arrangements in place and will further explore opportunities for partnerships and shared services, where this can be demonstrated to provide the best value. Periodic joint management team meetings are held to discuss issues with Chichester District Council, West Sussex County Council and the University of Chichester. The Council's Chief Executive meets regularly with other CEO's on the West Sussex County Chief Executives Forum and West Sussex Chief Executives & Leaders meet periodically via the West Sussex Leaders Board. There are also regular liaison meetings with the three Town Councils (Arundel, Bognor Regis and Littlehampton) which involve the Chief Executive, the Leader and a senior officer from Arun District Council and officers and Members from the Town Councils.

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

The Council continues to work with, and provide support to, Town and Parish Councils wishing to develop a Neighbourhood Development Plan and also maintains

a register of 'assets of community value' (introduced as part of the Localism Act 2011).

The Council's overarching priorities are used to drive other key strategies for consultation, agreement and publication. The most significant of these are:-

- 'Open For Business' - An Economic Strategy for Arun 2009-2026 (this has been reviewed and a refreshed Economic Development Strategy is due in 2019)
- Local Plan 2011-2031 (following a lengthy review and examination process, the Planning Inspectorate advised of a number of 'Main Modifications' to the draft document. These were consulted on and the updated Local Plan and policies agreed by the Inspector. The final Local Plan was adopted by Full Council in July 2018)
- Customer Access Strategy (to be reviewed and updated in 2019)
- Leisure & Cultural Strategy 2013-2028 (recommendations for the future were agreed, following public consultation in 2012/13, and are currently being progressed):-
  - the leisure contract transferred to Freedom Leisure from April 2016
  - construction of the 'Littlehampton Wave' has been completed, with the new swimming pool and leisure centre opening in late March 2019
  - improvements have been made to the Arun Leisure Centre, with further enhancements planned
  - improvements to the Arundel streetscape are being progressed in conjunction with Arundel Town Council
- Bognor Regis regeneration:-
  - further to earlier public consultation on the proposals for the future of the key Regis Centre and Hothampton sites, options for the regeneration of these areas were identified. In early 2017, Full Council decided which of these options were preferred. Investigation with specialist advisors, key partners, etc. as to how these may be progressed is under way. The Hothampton Pavilion Park proposal has been approved, with consultants working on potential design options for consultation, prior to a planning application being submitted
  - other agreed projects (e.g. the Bognor Regis 'public realm' transformation and Seafront Strategy) continue to be progressed and a funding bid has been made to the High Streets Fund for further improvements to be made to the town centre
  - the Council also continues to liaise with local partners on improvements (e.g. the University of Chichester's technology park) and to attract new businesses / investment (e.g. the Rolls-Royce logistics centre)
- Enterprise Bognor Regis development, which is being progressed in conjunction with the Local Plan and a Bognor Regis Business Improvement District (BID) which has been implemented within the town centre
- Littlehampton public realm regeneration proposals have been agreed and it has recently been announced that the Council has been successful in obtaining grant funding from the Coastal Communities Fund to progress this



- progress of an Arun Growth Deal – to clearly identify the Arun ‘economic growth offer’ and to contribute to the overall West Sussex Growth Plan being developed by WSCC
- Capital Strategy 2019/20 to 2021/22 – this is a new 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 has been obtained in 2018/19 for ‘Journey To Work’ and retail training projects in order to assist both those without employment and independent retailers.

The Council has a key role in a number of local partnerships, working for the benefit of residents and the community to improve the local quality of life, including:-

- Safer Arun Partnership (the statutory community safety partnership)
  - current Council anti-social behaviour initiatives include a Public Spaces Protection Order (PSPO) covering designated areas within the District and an extension of the successful litter and dog fouling enforcement trial
- Arun Wellbeing & Health Partnership
  - Arun Wellbeing has a dedicated website and offers practical advice and events on health and diet to assist in the improvement of the health of residents and to reduce health inequalities within the area
  - it also offers home energy visits and advice

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

- Coast To Capital Local Enterprise Partnership
- Wellbeing Programme
- Think Family Programme
- West Sussex Fuel Poverty Partnership
- Coastal West Sussex Partnership
- Rural West Sussex Partnership
- Coastal West Sussex & Greater Brighton Strategic Planning Board
- Greater Brighton Economic Board.

The Council is clear about its responsibilities for services, whether provided directly or through partners / other third parties. We will work closely with partners and influence third parties to make sure they deliver to agreed levels of quality and are accountable for what they do. Now that the Local Plan has been agreed, 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.

We have a clear commitment to ensure services deliver the most appropriate combination of quality, value and choice to all residents. As part of this process, the Council has let a number of its major contracts in recent years (e.g. Combined

Cleansing Services, Greenspace Management, Leisure Management) and continues to provide the best level of service, while achieving both cost savings and also encouraging partner investment in improvements.

Arun (and other Districts in the County) are liaising 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. If progressed, these changes could have a significant impact on the Council, both financially (loss of recycling credits, increased homelessness costs, etc.) and through additional burdens placed upon it.

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 (which is due for review and update in 2019).

#### **D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

The Council publishes its Annual Financial Accounts in accordance with the CIPFA guidelines. The annual Budget is approved by Full Council and regularly monitored and reported on. In the event of significant variation, requiring additional expenditure, a Supplementary Estimate may be raised for Full Council approval.

The Council has a range of performance indicators, used to measure progress against its key priorities in the annual Corporate Plan. The effectiveness of these indicators is considered annually. In 2017/18, officers and Members considered the performance indicators for inclusion in a revised Corporate Plan to cover the period 2018-2022, linked to the 3 existing Priority themes which the Council has already agreed will continue to be used for this period.

The Council regularly surveys users of its services and this process has been enhanced, with annual customer satisfaction surveys undertaken to assess key elements of the delivery of its new priorities. Results are published and the information provided is used as a resource which informs the Corporate Plan process and future policy decisions. Service and value for money reviews may also be undertaken (both via internal audits and Member Working Groups) and the Council's external auditors provide a value for money conclusion as part of their annual review of the Council's accounts.

Performance indicators are in place and regularly monitored, with periodic reports provided to the Corporate Management Team, Overview Select Committee and Cabinet (and 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 also the Leader of the main opposition group.

In 2016/17, the Council implemented a management restructure as part of the 2020 Vision programme in order to achieve cost savings. As part of this there was a reduction of 2 Director posts in 2017. Heads of Service posts have also been removed, with service areas now reporting to Group Heads and realigned under the remaining Directors.

The Group Head of Corporate Support is the designated Section 151 Officer. The Council's Constitution contains specific details of the overall financial responsibilities of the role and an update of the Council's Financial Regulations was recently performed and the resulting changes included in the Constitution.

The Monitoring Officer (Group Head of Council Advice & Monitoring) has overall responsibility for legal compliance, and she and her staff work closely with Officers and Members to advise on legal issues which affect the Council. Under the Localism Act 2011, local authorities were granted the 'general power of competence', allowing greater freedom to work in partnership and to develop more innovative ways of providing services.

As reported in previous AGS documents, the Council has worked with staff and Members on its 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. In May 2018, the Chief Executive provided Members with a final update on the programme, with the achievement of confirmed annual savings of over £3M.

It is anticipated that there will be further significant funding reductions and additional burdens placed upon local government in the immediate future. There is also ongoing uncertainty regarding the progress / impact of other central government proposals (e.g. business rate retention) and with the current political turmoil surrounding the Brexit process. The Council has considered these as far as possible when preparing its Medium Term Financial Strategy (MTFS), used to inform its annual budget changes and it is anticipated that further annual cost savings will be required to maintain the Council's financial stability.

In the current financial climate, the Council will continue to seek ways to provide quality frontline services with the funds available. CMT has agreed to revisit the initial 2020 Vision proposals to see if it is now appropriate to progress projects that were considered to be a lower priority at the outset and will also give further consideration to the shared services agenda for future efficiencies.

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 such as an increase in home working by staff.

Human Resources procedures are in place to facilitate the recruitment and retention of capable staff. There is an induction and training programme for all staff, including increasing use of e-learning facilities. All staff are subject to an annual corporate appraisal scheme, which will be used to identify personal training and development requirements and for them to be incorporated into a corporate training programme. Following the management restructure, the Council has agreed funding to provide continuing professional and personal development for the members of the new Senior Management Team and continues to offer management development training opportunities for other new and prospective managers (this is to be enhanced in 2019 to provide opportunities for managers to reach their potential and to improve succession planning within the Council).

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 has been 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, dealing with new legislation, understanding current legislation and developing their personal skills. They also receive training from the Monitoring Officer on the Council's Member Code of Conduct, which is reported to the Standards Committee.

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

The system of internal control is based upon an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically.

The Council has an agreed and published Risk Management Strategy (which includes the Council's risk appetite statement), and reflects the roles and responsibilities of Members and all levels of staff in the risk management process. Internal and external audit work will consider and report upon risk management in the area under review. The Council has a Governance & Risk Group of Officers, who regularly consider current issues and the sources of assurance to support the Annual Governance Statement.

The Council's Strategic Risk Register (SRR) is periodically reviewed by the Governance & Risk Group and CMT. The Council recognises that it faces significant financial challenges in the coming years, together with the uncertainty surrounding major reforms proposed / being progressed by central government. Reports are presented to the Audit & Governance Committee, which was also involved in revising

the current SRR document and which is published on the Council's website. In addition, all Service areas are required to prepare and maintain Operational Risk Registers, which are reviewed by the Governance & Risk Group.

Proposals for all major IT and business transformation projects incorporate a full risk assessment in the report to the Arun Improvement Programme Board and consideration of risk is also included in the Project Initiation Documents (PIDs) for the projects they approve. The Council 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.

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 2017).

As reported in previous years, the Council commenced a council house building and development programme to provide additional rented residential accommodation (with the first properties completed in 2017). Although the HRA is ring-fenced (and separate from the Council's General Fund), its future financing has been significantly adversely impacted by the government's 2015 Budget change to reduce social rents by 1% for each year until 2019/20 and also by the ongoing uncertainty regarding the financial impact of various requirements / proposals from the Housing & Planning Act 2016 and the "Fixing our broken housing market" White Paper in 2017. A new Housing Revenue Account (HRA) Business Plan for the period 2017-2027 has now been agreed by the Council and reviewed / updated in 2018/19, which includes:-

- the planned acquisition of 275 homes over the 10-year period, in order to replace the properties it is expected will be lost through Right To Buy regulations and to provide a net gain in the affordable housing stock over the period
- investment in the Council's sheltered home schemes over the period to ensure they remain fit for purpose.

The Council fully meets the legal requirements for insurance and claims are managed in accordance with the Ministry of Justice protocols. All of the claims are monitored by the Insurance Officer and the results are reviewed.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2016).

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

The work of the executive body and decisions made is monitored by the Council's scrutiny function. This is fulfilled by the Overview Select Committee. In certain circumstances detailed in the Constitution, a Cabinet decision may be subject to 'call-in' for specific scrutiny which is carried out by the members of the Overview Select Committee.

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

- Housing & Customer Service
- Environment & Leisure.

The work of these groups may be commissioned by, and report to, Full Council, the Cabinet or an Individual Cabinet Member (ICM), as well as the Overview Select Committee. Members have also participated in joint scrutiny activities with other local Councils and these will be continued across the County area.

The Audit & Governance Committee is embedded as part of the Council's overall governance framework. Its terms of reference incorporate the core functions, as identified in the appropriate CIPFA guidance. The Committee is responsible for issues relating to the Council's system of internal control, risk management, financial reporting and counter-fraud, as well overseeing the arrangements for, and providing a forum for reporting and discussion of issues raised by, both internal and external audit.

The Council has a well-established Internal Audit section, which undertakes regular reviews as part of an agreed rolling programme of audits, to provide assurance on the adequacy and effectiveness of the systems of internal control operating within the Council (including compliance with policies, procedures, legal rules and regulations). The Annual Audit Plan is prepared, and audit work performed, on a risk-based approach and this is approved by the Audit & Governance Committee. Action Plans are raised in each audit, which detail the recommendations which have been agreed with management. Findings and follow-up reports are periodically presented to the Audit & Governance Committee. The Council's internal audit arrangements have regard to the requirements of the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2019).

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

The Council has chosen to opt-in to the sector led body approach for external auditor appointments (with a procurement exercise undertaken by the Government-appointed body Public Sector Audit Appointments Ltd.). As a result of this, the Council's current external auditors (Ernst & Young LLP) have been appointed to

perform the audit of the Council's accounts for a 5-year period (covering the accounts from 2018/19 to 2022/23).

The Council operates a Publication Scheme, as required by the Freedom of Information Act 2000, and also publishes information to meet current local government data transparency requirements. Planning matters are also covered in the published annual Authority Monitoring Report, as required by the Localism Act 2011.

Details of payments made under the Members' Allowances Scheme are published on the Council's website. The current scheme was adopted by Full Council in October 2013. The recommendations of the Independent Remuneration Panel's 8<sup>th</sup> review, which was delayed until the outcome of the Council's Vision work was known, were presented to the members of the Audit & Governance Committee in February 2019. However, the Committee requested that the Panel undertook further work on a small number of proposals and a special meeting of the Committee will now take place in June with recommendations on the revised scheme being presented for approval by Full Council in July 2019.

In June 2018, the Planning Advisory Service undertook a peer review of the Council's planning service. Results were reported to Cabinet and the Group Head of Planning is progressing an action plan to implement the recommended improvements.

## **Review Of Effectiveness**

The Council annually reviews the effectiveness of its governance framework, including the system of internal control. The review is informed by the work of the managers who have responsibility for the development and maintenance of the governance process, the Chief Internal Auditor's annual report and also by comments made by the external auditor and other appropriate review agencies / inspectorates.

Information to provide assurance to support the content of the Annual Governance Statement is available across the Council in various sources. In preparing the AGS for the Governance & Risk Group, consideration has included:-

- 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 2019/20
- 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 2018/19 (to be presented to the Audit & Governance Committee on 30<sup>th</sup> July 2019 in conjunction with this document), which contains an assurance statement regarding internal control
- consideration of the Council's IT governance arrangements, to ensure they continue to be adequate to meet the authority's objectives
- the findings and comments of external audit raised in their annual Audit Results Report.

The arrangements required for gathering assurances for the preparation of the Annual Governance Statement provide an opportunity for the Council to consider the robustness of the governance arrangements in place, affecting all areas of the organisation, and helps to identify those areas where improvement is required.

The Annual Governance Statement has been reviewed by the Governance and Risk Group and the Audit & Governance Committee. The process of preparing the Annual Governance Statement has in itself added value to the corporate governance and internal control framework of the Council.

### **Governance Issues**

While the governance arrangements in place continue to be regarded as fit for purpose in accordance with the current framework, a small number of specific risks have been identified which have been discussed with appropriate management and actions to mitigate them agreed.

The annual compliance review identified a number of issues requiring actions for improvement (some of which had not yet been completed from previous years) and these are identified in the action plan shown on the following pages. These include one long-term issue raised by the Audit Commission in their Annual Governance Report for 2011/12. These will be considered and monitored by the Governance & Risk Group, with action plans, timescales and a responsible Officer agreed. Progress to address these issues will also be reported to the Audit & Governance Committee.



**Governance Risks Identified:-**

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
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**Issues identified in from the review of compliance with the local Code of Corporate Governance:-**

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 have agreed an action plan with the Regulator which will be monitored on a monthly basis with the target of being compliant by November 2019. This will cover 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. As part of the ongoing Housing Department restructure, appropriate job roles will be confirmed / created to ensure future compliance and departmental policies and staff training are also being reviewed.	Director of Services	Nov 2019
The Council's published Customer Access Strategy covered the period 2013-2017 and was developed before the Council's 2020 Vision initiative and restructure. Some items referenced have now either been progressed or are no longer relevant (e.g. the Lagan system, the 'golden' customer record, etc.)	The Housing & Customer Services Working Group was advised in 2018 that the strategy was to be reviewed and that a report would be presented to them – this is due in September 2019.	Group Head of Neighbourhood Services	Sept 2019
A number of the Council's other strategies / policies either require review and update or to be developed and progressed (e.g. Equality & Diversity Policy, Economic Development Strategy, Digital Strategy)	Development or update of these key strategies and policies will be progressed through 2019/20.	CMT / Group Heads	Mar 2020

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

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. Although the Council's major partnerships are known and	An internal audit of partnerships, against best practice guidance (e.g. from CIPFA), was completed and reported to the Corporate Management Team and Audit & Governance Committee in 2015. A plan of action was agreed at	Group Head of Policy	Nov 2019
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**Governance Risks Identified:-**

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
<p>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>this time, but progress has been delayed by the need to give consideration to possible alternative service delivery arrangements as part of the wider Vision 2020 work and also by the responsibility and operational changes resulting from the Council's management restructure.</p> <p>The priority of the new Group Head of Policy is the conduct of the various elections required each year. A report on the proposed way forward for recommended review into the identification and governance of partnerships was provided to the Audit &amp; Governance Committee in February 2019 and a further update has been requested for its November 2019 meeting.</p>		
<p>The Council has undertaken a management and operational restructure in 2016-18 and the Council's operational risk registers (ORR) require review and update.</p> <p>The review will need to ensure that the ORRs are both up-to-date and also cover the whole of the revised structure of the Council.</p>	<p>The Council implemented new performance management software in 2018, which includes a risk management module.</p> <p>The format for operational risk registers for use in the new system still needs to be agreed to allow them to be reviewed and updated. Direction will also be required from corporate management as to how the ORRs should be structured and maintained in order to cover the whole of the Council's revised structure.</p>	<p>Insurance &amp; Risk Officer / Governance &amp; Risk Group</p>	<p>Nov 2019</p>
<b>Issues raised by the Audit Commission in respect of the 2011/12 annual statements:-</b>			
<p>Further to comments raised in 2010/11, the Council's draft Disaster Recovery Plan (for the provision of IT services) requires completion and a regular programme of testing established, to ensure key systems and data can be recovered or restored in an efficient manner.</p> <p>In recent years, Zurich Risk Engineering (ZRE) the risk</p>	<p>As has been advised previously, the Council's IT recovery arrangements have been subject to considerable change in recent years, including the implementation of the Storage Area Network (SAN) at the Civic Centre and a back-up SAN at the WSCC site in Chichester, to which regular automated off-site back-ups are being transmitted. However, the completion of appropriate documentation</p>	<p>Group Head of Neighbourhood Services / ICT &amp; Service Improvement Manager</p>	<p>Dec 2019</p>

**Governance Risks Identified:-**

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
consultancy arm of the Council's (former) insurers has been assisting the Council in a review of its Corporate Business Continuity Plan (BCP) and the IT Disaster Recovery Plan was to be linked to this exercise.	<p>remains outstanding.</p> <p>The ICT &amp; Service Improvement Manager considered resilience in the ICT Service Strategy 2019-2023 adopted by Members and will progress the documentation issue in 2019</p> <p>The ZRE-assisted work in a draft Corporate BCP and workshops were held in 2016/17 to assist service areas in completing an updated Business Impact Assessment (BIA) for each area, which would identify recovery requirements and service priorities. These must be agreed and aligned with the ability to provide appropriate IT services in the event of a disaster.</p> <p>This work stalled during the Council's restructure and is now being progressed with the assistance of ZRE to reflect the new structure and organisational needs.</p>		

**Issues identified in the 2017/18 Annual Governance Statement that have now been resolved:-**

<p>The review of possible future service delivery mechanisms under the Council's Vision 2020 work includes consideration of service reduction, shared service with other authorities and outsourcing.</p> <p>Major change will inevitably impact the Council's corporate governance arrangements and control environment.</p>	<p>The potential for shared support services was considered by the Council in 2016 but the decision was taken not to progress with these.</p> <p>In 2017/18, the Council completed its restructure of senior management and operational structures / responsibilities are now largely complete. 'Vision' changes have now been integrated into the Council's corporate governance and control environment.</p> <p>The Chief Executive briefed Full Council on the final outcome and savings of the 2020 Vision Programme at its meeting of 2 May 2018.</p>	Chief Executive / Chief Internal Auditor	Complete May 2018
Local Plan 2011-2031 – as reported previously, the Council's draft Plan examination was suspended for 12-18 months on	Following the various Hearings, etc. the Council provided responses to the Inspector and progressed the Main	Director of Place	July 2018

**Governance Risks Identified:-**

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
<p>the recommendation of the Planning Inspectorate following 'examination in public' in June 2015.</p> <p>Consideration was given to the Inspector's conclusions contained in his report and the draft Local Plan and evidence base updated to include increased housing numbers.</p> <p>The 'examination in public' resumed with hearings held in September 2017.</p>	<p>Modifications required to the draft Local Plan / evidence base.</p> <p>These modifications were consulted on, a revised submission was approved by the Planning Inspector.</p> <p>The final Arun Local Plan 2011-2031 was adopted by Full Council at its meeting of 18 July 2018.</p>		

**Certification**

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council. Where governance risks have been identified, mitigating actions have been advised by appropriate Officers (as documented above).

Signed:-

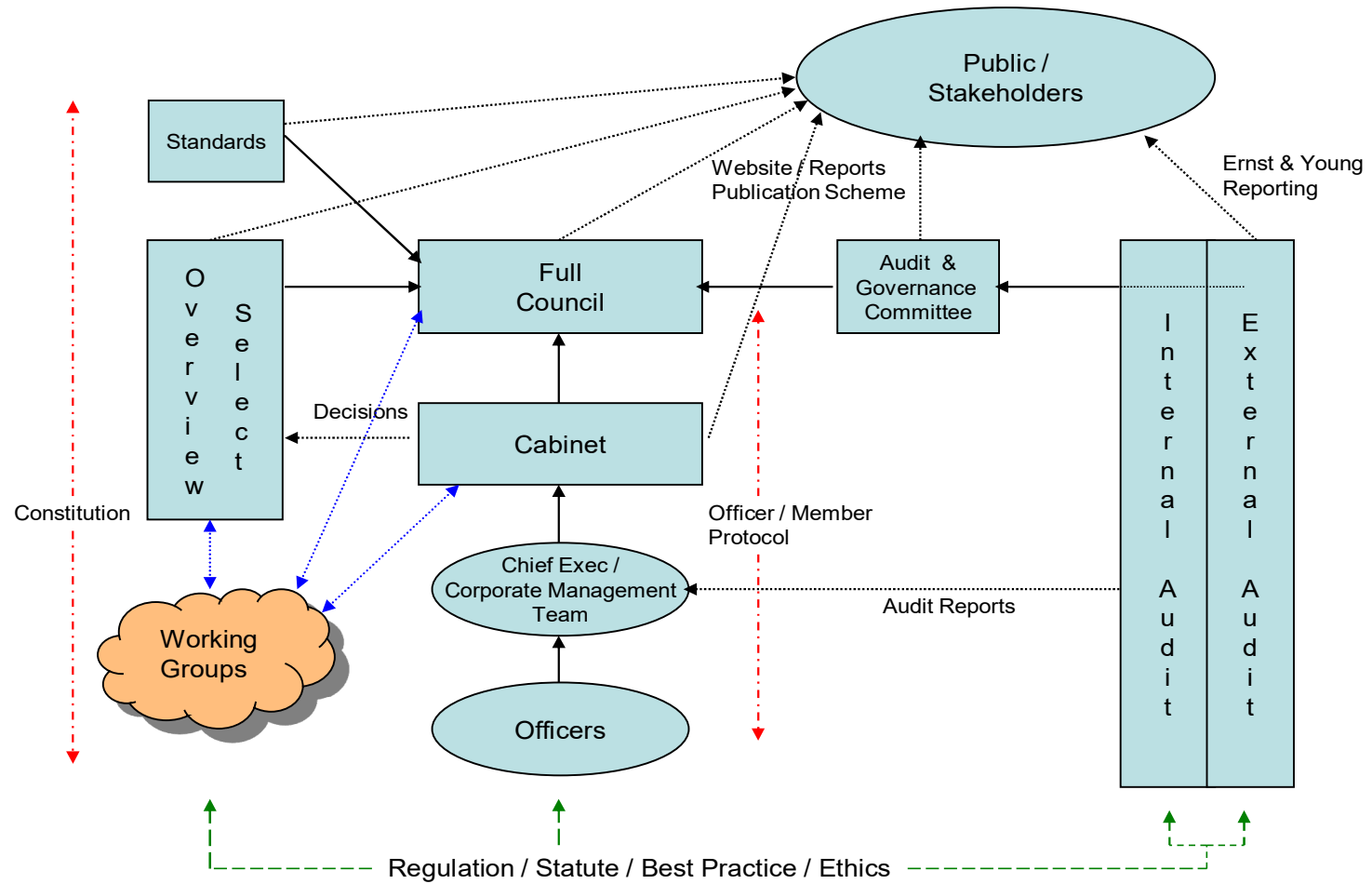
Councillor Dr James Walsh  
Leader of Council

Nigel Lynn  
Chief Executive

on behalf of the Members and Senior Officers of the Council

Dated:-

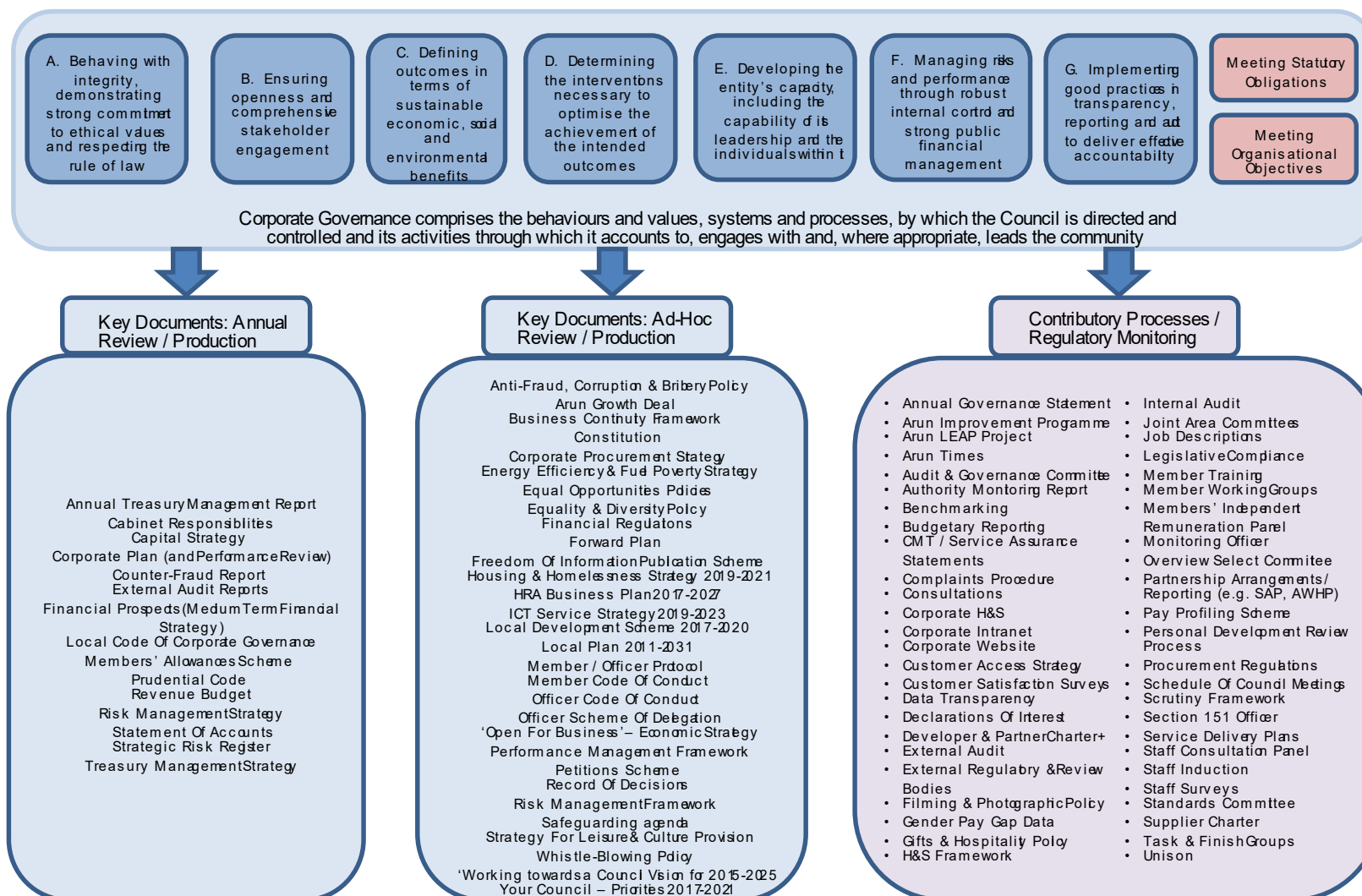
### Arun District Council – Governance Structure





# Corporate Governance Framework

## Principles, Statutory Obligations and Organisational Objectives





# Local Code of Corporate Governance 2019/20

## INTRODUCTION

Corporate governance is a term used to describe the way that the Council is directed and controlled and its activities through which it accounts to, engages with and, where appropriate, leads the community. It includes the behaviours and values, systems and processes that underpin the Council's arrangements for effective:-

- Leadership
- Management
- Performance
- Delivery of positive customer outcomes
- Community engagement
- Stewardship of public money.

Through this, it enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

## GOOD CORPORATE GOVERNANCE

Arun District Council is committed to the principles of good corporate governance identified in the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (2016)' and confirms its commitment through the adoption, development and monitoring of its own Local Code of Corporate Governance.





This Framework is based upon the International Framework: Good Governance in the Public Sector, CIPFA / IFAC, 2014 which defines governance as follows:-

*Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved*

It also states that:-

*To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times*

*Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders*

The Council recognises that organisations with good corporate governance demonstrate the capacity to maintain high quality services and to deliver improvement. It will also encourage stakeholders to have confidence in us and allow the Council to undertake its role with its community.

This document sets out Arun District Council's *Local Code of Corporate Governance* and the processes for monitoring its effectiveness. The Code provides the framework for the Council to achieve its aims and objectives.

The Council's Governance & Risk Group has responsibility for:-

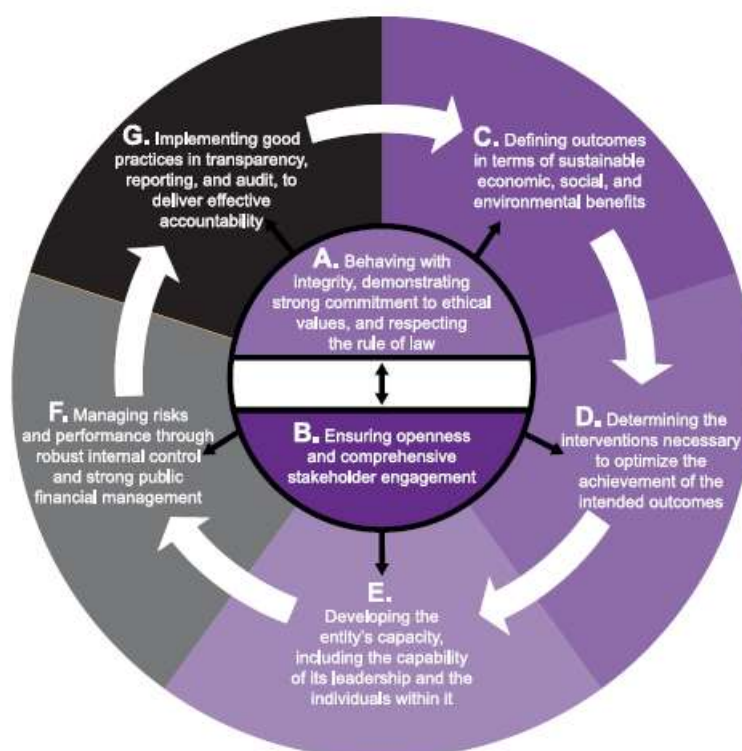
- overseeing the implementation and monitoring of the Code
- reviewing the operation of the Code on an annual basis
- agreeing and reporting on any significant revisions to the Code
- reporting annually to Members (via the Audit & Governance Committee) on compliance with the Code and on any actions that may be needed to ensure its effectiveness in practice (in conjunction with the preparation and approval of the Council's Annual Governance Statement).

## **CORE PRINCIPLES**

The Code is based upon the following core principles (as set out in the 2016 Framework):-

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting and audit to deliver effective accountability

The correlation of these core principles is shown in the diagram below:-



The following shows how the Council meets these core principles:-

Principles	Sub-Principles	Demonstrated By
<b>Acting in the public interest requires a commitment to and effective arrangements for:</b>		
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Behaving with integrity	The Council's leadership sets a tone for the organisation by creating a climate of openness, support and respect Appropriate policies and processes are developed to embed the principles
	Demonstrating strong commitment to ethical values	Shared values, including leadership values, are developed and maintained for both the Council and its staff. These reflect public expectations and are communicated to Members, staff, the community and partners
	Respecting the rule of law	Standards of conduct and personal behaviour expected of Members and staff are defined and communicated through Codes of Conduct and protocols Council leadership recognises the limits of lawful action and observes both legislation and general responsibilities placed on local authorities Mechanisms are in place to deal with breaches of legal and regulatory provisions effectively

B. Ensuring openness and comprehensive stakeholder engagement	Openness	<p>The Council is committed to openness and transparency in all its dealings, subject only to the need to preserve confidentiality where it is proper and appropriate to do so</p> <p>Open and effective mechanisms are in place for recording decisions and the evidence on which these are based</p>
	Engaging comprehensively with institutional stakeholders <sup>(1)</sup>	<p>Consideration is given to the institutional stakeholders to whom the Council is accountable and assessment made on the effectiveness of the relationship and any changes required</p>
	Engaging with individual citizens and service users effectively	<p>Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, including monitoring arrangements to ensure that they operate effectively</p> <p>Undertaking appropriate consultation and customer satisfaction exercises</p>
<b>In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good also requires a commitment to and effective arrangements for:</b>		
C. Defining outcomes in terms of sustainable economic, social and environmental benefits	Defining outcomes	<p>Developing and promoting the Council's purpose and vision and using this as a basis for corporate / service planning and shaping other key strategies</p> <p>Focussing on the purpose of the Council and on outcomes for the community and publishing them annually as part of the Corporate Plan</p>
	Sustainable economic, social and environmental benefits	<p>Regular review of the Council's vision and its implications for the Council's governance arrangements and economic, social and environmental benefits</p> <p>Consideration of social and environmental impacts in policies / decisions</p> <p>Supporting / promoting environmental initiatives for itself and its residents</p>
D. Determining the interventions necessary to optimise the achievement of the intended outcomes	Determining interventions	<p>Published annual and periodic reports to the public and Members which communicate the Council's activities, achievements, plans, financial position and performance</p> <p>Interventions required are identified through these reports</p>
	Planning interventions	<p>Performance, audit, risk and finance information is used to identify areas of concern and to plan required interventions</p>
	Optimizing achievement of intended outcomes	<p>An agreed annual Budget and Medium Term Financial Strategy to ensure that finances are available to enable delivery of the Council's plans</p>

		SMART outcomes, of benefit to the community, underpinned by robust plans and efficient business activity
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it	Developing the entity's capacity	Clear vision, strategy and direction, underpinned by capable leadership (reinforced by the 2016/17 management restructure) Ongoing work, following-on from the 2020 Vision programme, to ensure the best provision of future services that can be delivered effectively
	Developing the capability of the entity's leadership and other individuals	Recruitment and retention of high performing staff and supplier partners Development training provision for senior managers
F. Managing risks and performance through robust internal control and strong public financial management	Managing risk	Embedded risk management processes which are linked to corporate priorities, project delivery and organisational processes Horizon scanning for potential future risks / opportunities
	Managing performance	Performance targets set via Cabinet, with outturns regularly monitored and reported to stakeholders
	Robust internal control	Appropriate preventive / detective controls in place include segregation of duties, approval / authorisation processes, security of assets and audits (both internal and external)
	Managing data	Robust information governance standards and security mechanisms in place These have been reinforced and all staff trained to meet the requirements of the General Data Protection Regulation (GDPR) / Data Protection Act 2018
	Strong public financial management	Annual Budget agreed by Full Council, with accountable budget holders, and subject to regular monitoring / reporting Medium Term Financial Strategy and Treasury / investment Strategy agreed and regularly reviewed Audited annual statement of accounts
G. Implementing good practices in transparency, reporting and audit to deliver effective accountability	Implementing good practice in transparency	Meeting Local Government Transparency Code requirements Member scrutiny function in place to encourage constructive challenge and performance improvement Transparency, accountability and integrity demonstrated through the Council's governance framework
	Implementing good practices in reporting	Processes for report publication ensure that there is appropriate consideration of legal, financial, technical and risk matters

		Ensuring that there is 'ownership' by appropriate senior management and Members
	Assurance and effective accountability	Ensuring that recommendations made by external audit are acted upon Ensuring an effective internal audit service, with direct access to Members is in place Welcoming peer challenge, reviews and inspections from regulatory bodies

(1) - institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable

## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT AND GOVERNANCE COMMITTEE ON 30 July 2019

#### PART A: REPORT

**SUBJECT:** Treasury Management Annual Report 2018//19

**REPORT AUTHOR:** Sian Southerton – Senior Accountant (Treasury)

**DATE:** June 2019

**EXTN:** 37861

**PORTFOLIO AREA:** Corporate Support

#### EXECUTIVE SUMMARY:

To report on the Treasury Management activities for the year 2018/19 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

#### RECOMMENDATIONS:

Audit Committee is requested to recommend Full Council to:

- (i) approve the actual prudential and treasury indicators for 2018/19 contained in the report;
- (ii) note the treasury management report for 2018/19; and
- (iii) note the treasury activity during 2018/19 which has generated interest receipts of £754,000 (1.25%). Budget £480,000 (1.14%)

#### BACKGROUND:

##### 1.0 INTRODUCTION

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2018/19 the minimum reporting requirements of the code were met and Full Council received the following reports:

- the annual treasury strategy report in advance of the year (Council 07/03/18).
- the Interim treasury report on 9<sup>th</sup> January 2019.
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny

of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Audit and Governance Committee before they were reported to Full Council.

All Councillors were invited to attend a briefing presented by Link Asset Services (Treasury advisors) explaining the roles and responsibilities of elected members and giving them an economic update. The latest session was held on 15th November 2018 of which 8 members attended.

The Annual Treasury Management Report for 2018/19 summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

## 2.0 THE ECONOMY AND INTEREST RATES

After weak economic growth in the UK of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4.

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is a little surprising that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February and to 2% in May. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit. The Conservative minority government has been unable to muster a majority in the Commons over its Brexit deal and this continues to cause major uncertainties.

### 3.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2018/19

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2017/18 Actual £,000	2018/19 Original £,000	2018/19 Actual £,000
Non-HRA capital expenditure	10,957	2,310	13,764
HRA capital expenditure	6,226	8,047	4,125
HRA Settlement	-	-	-
<b>Total capital expenditure</b>	<b>17,183</b>	<b>10,357</b>	<b>17,889</b>
Resourced by:			
• Capital receipts	10,425	1,500	3,398
• Capital grants	734	1,000	2,193
• Capital reserves	2,861	3,017	1,613
• Revenue	822	1,340	7,026
	<b>14,842</b>	<b>6,875</b>	<b>14,230</b>
<b>Unfinanced capital expenditure</b>	<b>2,341</b>	<b>3,500</b>	<b>3,659</b>

The increased non-HRA capital expenditure is due to the work completed to build the wave in Littlehampton which wasn't in the original figures.



#### 4.0 THE COUNCIL'S OVERALL BORROWING NEED

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2018/19 unfinanced capital expenditure (see above table).

Part of the Council's treasury activities is to address the funding requirements for any borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLb) or the money markets), or utilising temporary cash resources within the Council.

The CFR increases when capital expenditure is incurred but not financed and reduces when amounts are set aside for loan repayments.

The Council currently has no debt other than that taken out for the HRA Self-Financing (March 2012). The Council's overdraft facility has now been removed as the increased banking costs made it very expensive and rather than incurring costs for the facility, we now maintain an approx. £200k balance in the account daily (earning interest at the bank of England base rate -10bp, currently 0.65%) to cover any potential cashflow need.

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement (summary in appendix1).

The Council's CFR for the year is shown below, and represents a key prudential indicator:

<b>CFR</b>	<b>2017/18 Actual £,000</b>	<b>2018/19 Original £,000</b>	<b>2018/19 Actual £,000</b>
Opening balance	52,837	52,565	<b>51,807</b>
<b>Add</b> unfinanced capital expenditure	2,341	3,500	<b>3,659</b>
<b>Less</b> Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP)	3,371	3,876	<b>3,749</b>
Closing balance	51,807	52,189	<b>51,717</b>

The borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

Arun's only borrowing relates to the HRA Self-Financing settlement (currently £53.18m). Prior to this borrowing being undertaken Arun had a negative CFR of £2.6m which has arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision. As a result of this Arun's gross debt exceeds its CFR and is likely to continue to do so in the short term.

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The authorised limit was not breached in 2018/19.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of 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.

## 5.0 TREASURY POSITION AS AT 31 MARCH 2019

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

During 2018/19, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	31 March 2018 Actual £000	2018/19 Original £000	31 March 2019 Actual £000
Capital expenditure	17,183	10,357	<b>17,889</b>
Total Debt	53,180	53,180	<b>53,180</b>
Capital Financing Requirement at 31 <sup>st</sup> March:			
• Non-HRA	-3,594	-4,198	<b>-1,876</b>
• HRA	55,401	56,387	<b>53,593</b>
• <b>Total</b>	<b>51,807</b>	<b>52,189</b>	<b>51,717</b>
Over / (under) borrowing	1,373	991	<b>1,463</b>
Investments			
• Longer than 1 year	8,000	n/a	<b>0</b>
• Under 1 year	52,730	n/a	<b>53,000</b>
• <b>Total</b>	<b>60,730</b>	<b>n/a</b>	<b>53,000</b>

Other prudential and treasury indicators are to be found in the main body of this report and appendix 1.

The base rate increased from 0.50% to 0.75% during 2018/19 (2/08/18). Although the rate has increased over the last 2 years, this is still a long way short of the rates achieved prior to the banking crises in 2008. Achieving a return over 1% continues to be challenging, however the CCLA (Churches Charities and Local Authorities) property fund, (investment of £5M) continues to enhance these returns.

This CCLA property fund has a diverse property investment portfolio, none of which are in shopping centres due to the current climate. The spread is as follows;

- Industrial 36.9%
- Offices 35.5%
- Retail Warehouses 13.5%
- Other (largely enterprise units) 10.6%
- Shops 3.5%

These fund managers are experts in property management and are always actively managing their portfolio.

At the beginning and the end of 2018/19, the Council's treasury position was as follows:

<b>Investments / Debt</b>	<b>2017/18 Rate/ Return (actual)</b>	<b>31<sup>st</sup> March 2018 Principal</b>	<b>2018/19 Rate / Return (budget)</b>	<b>2018/19 Rate / Return (Actual)</b>	<b>31<sup>st</sup> March 2019 Principal</b>
Total Investments	1.05%	£60.73m	1.14%	1.25%	£53m
Total Debt	2.75%	£53.18m	2.75%	2.75%	£53.18m

The maturity structure of the debt portfolio is shown in appendix 1.

## 6.0 THE STRATEGY FOR 2018/19

### 6.1 Investment strategy and control of interest rate risk

Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with

Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

## 6.2 Borrowing strategy and control of interest rate risk

New borrowing was avoided by running down spare cash balances, which has served the Council well over the last few years. This was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Since PWLB (Public Works Loan Board) rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields -which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

**Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2018/19 approved by the Council on 07/03/18 was subject to no revisions during the year.

A full list of the Council's approved counterparties is included in appendix 2.

## 7.0 BORROWING OUTTURN FOR 2018/19

Maturity loans for £70.902m were taken out on the 28<sup>th</sup> March 2012 to fund the new HRA self-financing system. The borrowing as at 31<sup>st</sup> March 2019 was £53.18m as shown below.

<u>Lender</u>	<u>Principal</u>	<u>Type</u>	<u>Interest Rate</u>	<u>Maturity</u>
PWLB	£8.860m	Maturity	1.99%	28/3/2020
PWLB	£8.860m	Maturity	2.40%	28/3/2022
PWLB	£8.870m	Maturity	3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	<b>£53.18m</b>		<b>2.75%</b>	

A maturity loan is a bullet repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in

interest rates and the council has locked into very low borrowing rates. The average rate of these loans at 31<sup>st</sup> March 2019 was 2.75%. No new borrowing was undertaken during the year.

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

## 8.0 INVESTMENT OUTTURN IN 2018/19

**Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by Full Council on 7<sup>th</sup> March 2018. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and subsequent reports and the Council had no liquidity difficulties.

**Resources** – the Council's cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources (£m)	31 <sup>st</sup> March 2018 £m	31 <sup>st</sup> March 2019 £m
Balances	17.3	<b>15.4</b>
Earmarked reserves	18.4	<b>15.4</b>
Provisions	1.7	<b>2.9</b>
Usable capital receipts	5.0	<b>2.8</b>
Total	42.4	<b>36.5</b>

The Council maintained an average balance of approximately £59m of internally managed funds. These internally managed funds earned an average rate of return of 0.97% plus 4.33% for the property fund giving an overall return of 1.25%. The comparable performance indicator is the average 7-day LIBID rate, uncompounded, which was 0.51%. This compares with a budget assumption of £42m investment balances earning an average rate of 1.14%.

A full list of investments at the 31 March 19 is included in appendix 3 and appendix 4 shows a comparison of the Councils investments against other Councils which puts our performance in a favourable light.

#### 9.0 OTHER - IFRS9 accounting standard

As a result of the change in accounting standards for 2018/19 under **IFRS 9**, this authority considered the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local

Government, [MHCLG], 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 commencing from 1.4.18.)

This accounting standard came into effect on 1<sup>st</sup> April 2018 which means that the category of investments valued under “available for sale” was removed and reclassified as “Fair Value through the Profit and Loss (FVPL)”. Any future fluctuations in market valuations would impact on the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. Due to the override there will be no impact on this authority in 2018/19, however the £5m invested in the property fund (CCLA) was valued at £5.072m at 31<sup>st</sup> March 2019 showing a capital surplus.

*Please note - The actual figures for 2018/19 have not yet been audited, so may be subject to change.*

**Contact:** Sian Southerton ext 37861 [sian.southerton@arun.gov.uk](mailto:sian.southerton@arun.gov.uk)

<b>2. PROPOSAL(S):</b> To approve all 3 recommendations.		
<b>3. OPTIONS:</b> The Treasury Management Strategy is legislative and under the Local Government act 2003 and therefore the only option is follow the proposal.		
<b>4. CONSULTATION:</b>		
Has consultation been undertaken with:	<b>YES</b>	<b>NO</b>
Relevant Town/Parish Council		√
Relevant District Ward Councillors		√
Other groups/persons (please specify)	√ Treasury Advisors	
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>		
Financial	√	
Legal		√
Human Rights/Equality Impact Assessment		√
Community Safety including Section 17 of Crime & Disorder Act		√
Sustainability		√
Asset Management/Property/Land		√
Technology		√
Other (please explain)		
<b>6. IMPLICATIONS:</b> Approval will enable the Council to comply with legislation and provide a Treasury Service		
<b>7. REASON FOR THE DECISION:</b> Statutory and the limits set, safeguard the Council against financial losses.		
<b>8. BACKGROUND PAPERS:</b> CIPFA'S Treasury Management in the Public Services: Code of Practice (2017) <i>(Link not available as copyright)</i> The Prudential Code for Capital Finance in Local Authorities (2017) Guidance notes (2018) <i>(Link not available as copyright)</i> The Local Government Act 2003 ( <a href="http://www.legislation.gov.uk/ukpga/2003/26/content">www.legislation.gov.uk/ukpga/2003/26/content</a> )		

# Prudential and treasury indicators

## APPENDIX 1

1. PRUDENTIAL INDICATORS	2017/18	2018/19	2018/19
Extract from budget and rent setting report	Actual	Original	Actual
	£'000	£'000	£'000
<b>Capital Expenditure</b>			
Non – HRA	10,957	2,310	*13,764
HRA	6,226	8,047	4,125
TOTAL	17,183	10,357	17,889
<b>Ratio of financing costs to net revenue stream</b>			
Non - HRA	-2.24%	-1.79%	-2.62%
HRA	32.82%	33.17%	33.11%
<b>Capital Financing Requirement as at 31 March</b>			
Non – HRA	-3,594	-4,198	-1,876
HRA	55,401	56,387	53,593
TOTAL	51,807	52,189	51,717
<b>Annual change in Cap. Financing Requirement</b>			
Non – HRA	173	-216	-205
HRA	-1,203	-160	-1,807
TOTAL	-1,030	-376	-2,012
<b>Incremental impact of capital investment decisions</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>
Increase in council tax (band D) per annum	26.37	n/a	n/a
Increase in average housing rent per week	0.10	n/a	n/a

\* Increase largely due to the Wave in Littlehampton build



2. TREASURY MANAGEMENT INDICATORS	2017/18	2018/19	2018/19
	<b>Actual</b>	<b>Original</b>	<b>Actual</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Authorised Limit for external debt</b>			
Borrowing	66,000	63,000	63,000
Other long term liabilities	372	0	0
<b>TOTAL</b>	<b>66,372</b>	<b>63,000</b>	<b>63,000</b>
<b>Operational Boundary for external debt</b>			
Borrowing	63,000	60,000	60,000
other long term liabilities	372	0	0
<b>TOTAL</b>	<b>63,372</b>	<b>60,000</b>	<b>60,000</b>
<b>Actual external debt</b>	53,180	53,180	53,180
<b>Maximum HRA Debt Limit</b>	81,630	N/a	N/a
<b>Upper limit for total principal sums invested for over 365 days (£m)</b>	<b>26</b>	<b>22</b>	<b>22</b>
-	-	-	-

<b>Maturity structure of fixed rate borrowing - upper &amp; Lower limits</b>	<b>Actual at 31/03/19</b>	<b>lower limit</b>	<b>upper limit</b>
under 12 months	16.66%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	16.66%	0%	50%
5 years and within 10 years	0%	0%	60%
10 years and above	66.68%	0%	100%

**LIST OF AUTHORISED COUNTERPARTIES****Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years**

		<u>Long</u>	<u>Short</u>
		<u>Term</u>	<u>Term</u>
<b>Min Criteria</b>	<b>Fitch</b>	<b>AA-</b>	<b>F1+</b>
	<b>Moody</b>	<b>Aa3</b>	<b>P-1</b>
	<b>S&amp;P</b>	<b>AA-</b>	<b>A-1+</b>

All Local Authorities

DBS Bank Ltd (SING)  
 HSBC Bank plc (UK)  
 Oversea-Chinese Banking Corp Ltd (SING)  
 Svenska Handelsbanken (SW)  
 United Overseas Bank Ltd (SING)  
 National Bank of Abu Dhabi (U.A.E)

**Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years**

		<u>Long</u>	<u>Short</u>
		<u>Term</u>	<u>Term</u>
<b>Min Criteria</b>	<b>Fitch</b>	<b>A+</b>	<b>F1</b>
	<b>Moody</b>	<b>A1</b>	<b>P-2</b>
	<b>S&amp;P</b>	<b>A+</b>	<b>A-1</b>

Bank of Nova Scotia (CAN)  
 Goldman Sachs International Bank (UK)  
 Standard Chartered Bank (UK)  
 Qatar National Bank (Qatar)

**Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years**

		<u>Long</u> <u>Term</u>	<u>Short</u> <u>Term</u>
<b>Min Criteria</b>	Fitch	<b>A-</b>	<b>F1</b>
	Moody	<b>A3</b>	<b>P-2</b>
	S&P	<b>A-</b>	<b>A-1</b>

Barclays Bank plc (UK)  
Nationwide Building Society (UK)  
Santander (UK)  
Close Brothers (UK)

**Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year**  
**Building Society with Assets greater than £10 billion**

Coventry Building Society (UK)  
Leeds Building Society (UK)  
Skipton Building Society (UK)  
Yorkshire Building Society (UK)

**Category 5 - Council's Bank**

NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Banking Group (Bank of Scotland/Lloyds)

**Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years**  
**banks effectively nationalised by UK government**

		<u>Long</u> <u>Term</u>	<u>Short</u> <u>Term</u>
<b>Min Criteria</b>	Fitch	<b>BBB-</b>	<b>F3</b>
	Moody	<b>Baa3</b>	<b>P-3</b>
	S&P	<b>BBB-</b>	<b>A-3</b>

Royal Bank of Scotland plc/National Westminster Bank plc (UK)(Nationalised)

**Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) - MONEY MARKET FUNDS (CNAV, LVNAV, VNAV) and Government Liquidity Funds**

Limit of £4million for each institution

CCLA Investment Management Ltd (Public sector deposit fund)	AAAmmf	LV NAV
Deutsche Banking Group	Aaa -mf	LV NAV
Federated Investors Ltd (Fitch Ratings)	AAAmmf	LV NAV
Fidelity Investments International (Moody's Rating)	Aaa -mf	LV NAV
Standard Life (Fitch Ratings)	AAAmmf	LV NAV
Northern Trust	Aaa -mf	LV NAV

**Category 8 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) – Enhanced Money Market Funds**

Limit of £4million for each institution

**Category 9 - Debt Management Office**

Debt management Account - NO LIMIT (UK Govt)

**Category 10 - Bonds issued by multilateral development banks - 5 Years**

Maximum investment £4 million

**Category 11 – Property Funds - 25 Years**

Maximum investment £6 million

CCLA

**INVESTMENTS at 31st March 2019**
**Appendix 3**

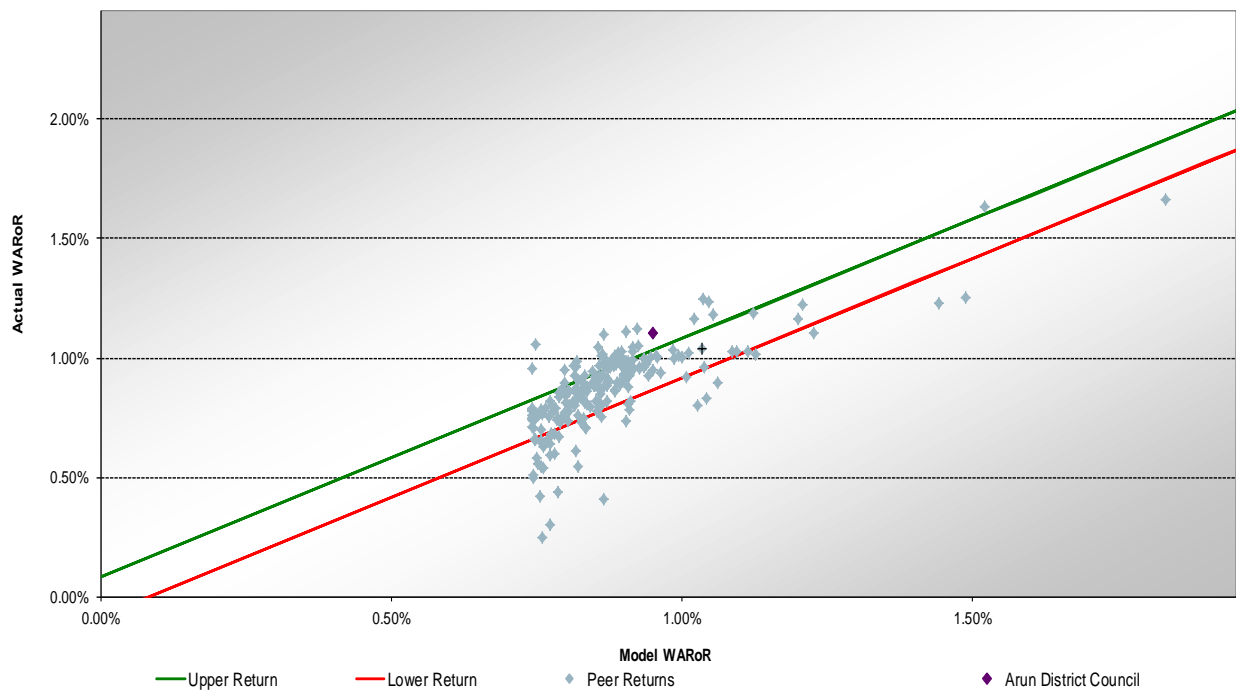
Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	620	Natwest Markets (was RBS)	19/08/2016	19/08/2019	£2,000,000.00	1.10*
Fixed Term Deposit	637	Close Brothers Ltd	18/04/2017	10/04/2019	£1,000,000.00	1.00
Fixed Term Deposit	675	Goldman Sachs International	08/05/2018	07/05/2019	£2,000,000.00	1.10
Fixed Term Deposit	676	Qatar National Bank	09/05/2018	09/05/2019	£1,000,000.00	1.31
Fixed Term Deposit	677	Goldman Sachs International	23/05/2018	22/05/2019	£1,000,000.00	1.10
Fixed Term Deposit	688	Qatar National Bank	30/08/2018	30/08/2019	£2,000,000.00	1.35
Fixed Term Deposit	690	Close Brothers Ltd	17/09/2018	17/09/2019	£1,000,000.00	1.10
Fixed Term Deposit	691	Development Bank of Singapore (DBS)	01/10/2018	01/04/2019	£2,000,000.00	0.950
Fixed Term Deposit	692	Development Bank of Singapore (DBS)	22/10/2018	23/04/2019	£2,000,000.00	0.95
Fixed Term Deposit	693	Leeds County Council	26/10/2018	26/04/2019	£2,000,000.00	0.85
Fixed Term Deposit	694	Goldman Sachs International	08/11/2018	07/11/2019	£2,000,000.00	1.305
Fixed Term Deposit	695	Santander	16/11/2018	18/11/2019	£2,000,000.00	1.25
Fixed Term Deposit	696	Qatar National Bank	20/11/2018	19/11/2019	£2,000,000.00	1.49
Fixed Term Deposit	697	Qatar National Bank	06/12/2018	05/12/2019	£1,000,000.00	1.50
Fixed Term Deposit	698	Barclays	06/12/2018	05/12/2019	£2,000,000.00	1.04
Fixed Term Deposit	699	Close Brothers Ltd	19/12/2018	18/12/2019	£2,000,000.00	1.25
Fixed Term Deposit	700	Close Brothers Ltd	21/12/2018	20/12/2019	£1,000,000.00	1.25
Fixed Term Deposit	701	Goldman Sachs International	03/01/2019	03/07/2019	£1,000,000.00	1.115
Fixed Term Deposit	702	Development Bank of Singapore (DBS)	11/01/2019	07/05/2019	£1,000,000.00	0.99
Fixed Term Deposit	703	Yorkshire BS	21/01/2019	07/05/2019	£1,000,000.00	0.80
Fixed Term Deposit	704	Development Bank of Singapore (DBS)	11/02/2019	05/11/2019	£1,000,000.00	1.04
Fixed Term Deposit	705	Qatar National Bank	14/02/2019	14/10/2019	£2,000,000.00	1.30
Fixed Term Deposit	706	Close Brothers Ltd	04/03/2019	03/03/2020	£1,000,000.00	1.25
Fixed Term Deposit	707	Qatar National Bank	06/03/2019	04/03/2020	£1,000,000.00	1.42
Fixed Term Deposit	708	Close Brothers Ltd	18/03/2019	16/03/2020	£1,000,000.00	1.25
Fixed Term Deposit	709	Qatar National Bank	27/03/2019	25/03/2020	£1,000,000.00	1.39
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	4.28**
Money Market Fund	110000	Federated			£4,000,000.00	0.78
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.79
Callable deposit	44445	Lloyds 95DN			£2,000,000.00	1.10
					<b>£53,000,000.00</b>	

\* Yr 1 - 0.8%, Yr 2 - 0.95%, Yr 3 - 1.10%

\*\* Approximate rate

## Arun District Council

## Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Arun District Council	1.10%	0.95%	0.15%	0.87%	1.03%	Above

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## AGENDA ITEM NO.

### **ARUN DISTRICT COUNCIL**

#### **REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2019**

#### **PART A : REPORT**

<b>SUBJECT:</b> Counter-Fraud Report 2018/19
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<b>REPORT AUTHOR:</b> Stephen Pearse, Internal Audit Manager
--

<b>DATE:</b> July 2019
------------------------

<b>EXTN:</b> 37561
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<b>PORTFOLIO AREA:</b> Corporate Support
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#### **EXECUTIVE SUMMARY:**

The Audit & Governance Committee is the designated body for oversight of the Council's anti-fraud culture

As part of its agreed workplan, an annual report on counter-fraud activity is presented for consideration by the Committee

#### **RECOMMENDATIONS:**

Members of the Audit & Governance Committee are requested to note the report and to endorse the counter-fraud work performed by the Council in 2018/19

#### **1. BACKGROUND:**

##### **1.1 INTRODUCTION**

The Audit & Governance Committee is the designated body for oversight of the Council's anti-fraud culture.

Counter-Fraud activity within the Council was subject to substantial review in 2011 and was updated to reflect the publication by the National Fraud Authority (NFA) of its "Fighting Fraud Locally – The Local Government Fraud Strategy" document in March 2012.

Attached is the report updating the Committee on Counter-Fraud 2018/19, including a number of appendices of supporting information.

##### **1.2 POINTS TO NOTE**

CIPFA published a revised Code of Practice on managing the risk of fraud and corruption (late 2014) and work to assess the Council's position against this



document was undertaken in 2017 and reported to the Committee at its December 2017 meeting. As part of this work consideration was also given to the new Fighting Fraud & Corruption Locally strategy (published in 2016) and the UK Anti-Corruption Plan.		
<b>2. PROPOSAL(S):</b> It is proposed that the Counter Fraud Report 2017/18 be noted and the counter-fraud work performed by the Council in 2017/18 be endorsed.		
<b>3. OPTIONS:</b> To note the Counter Fraud Report 2018/19 and endorse the counter-fraud work performed by the Council in 2018/19, or not		
<b>4. CONSULTATION:</b> In preparing the report, the Housing and Revenues & Benefits areas were consulted on the relevant activities performed.		
Has consultation been undertaken with:	<b>YES</b>	<b>NO</b>
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	<b>YES</b>	<b>NO</b>
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
<b>6. IMPLICATIONS:</b>		
<b>7. REASON FOR THE DECISION:</b> The Committee notes the Counter Fraud Report 2018/19 and endorses the counter-fraud work carried out by the Council in 2018/19		
<b>8. BACKGROUND PAPERS:</b>		

N/A
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# Audit & Governance Committee

## Counter-Fraud Report 2018/19

## **Introduction**

CIPFA defines fraud as "the intentional distortion of financial statements or other records by persons internal or external to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain."

Similarly, in *The Investigation of Fraud in the Public Sector* (CIPFA, 1994) CIPFA defined corruption as "the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person." Furthermore, the Fraud Act 2006 has defined fraud in law for the first time, defining it in three classes:

- fraud by false representation;
- fraud by failing to disclose information; and
- fraud by abuse of position.

Fraud may be committed both from within the organisation and from outside it. Frauds may be complex or simple, opportunistic, pre-planned or continuous.

In June 2013, the National Fraud Authority estimated that fraud was costing the UK £52 billion a year. It estimated that the loss in the public sector was £20.6 billion, with £2.1 billion of this specific to local government (see Appendix 1). In the public sector, every pound lost through fraud directly affects citizens by increasing national and local taxation, or threatening the provision of local services. (At the present time, CIPFA advise that this still remains the most reliable and comprehensive set of figures available).

The current financial climate has increased the likelihood of fraud being perpetrated against the Council. The Audit & Governance Committee has oversight responsibility for the anti-fraud culture within the Council and receipt of annual Counter-Fraud Report is included in the Committee's agreed workplan.

## **Fighting Fraud & Corruption Locally**

In 2016, CIPFA published "Fighting Fraud & Corruption Locally – the local government counter fraud and corruption strategy 2016 to 2019" (FFCL 2016). In the main, this document does not identify any significant new fraud areas from previous documents, but *"updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan."*

In the Executive Summary, the document:-

- *"calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment"*
- *"calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement"*
- *"sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause."*

It also states that:-

- *“it is now for elected members, chief executives, finance directors and all those charged with governance to ensure this strategy is adopted and implemented in their local authorities.”*

The document advises:-

*“In response to these challenges, local authorities will need to continue to follow the principles developed in Fighting Fraud Locally 2011 (FFL):*

- **Acknowledge:** *acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.*
- **Prevent:** *preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.*
- **Pursue:** *punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.”*

*“Our vision is that by 2019:*

- *there is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them*
- *by better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services*
- *local authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery*
- *local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses*
- *fraudsters will be brought to account quickly and efficiently and losses will be recovered.”*

With the past work performed on counter-fraud processes and specific high-risk areas, the Council is already well-aligned with the local elements of FFL. Internal Audit will continue to consider current and emerging fraud risk, both generally and in future Service area audits.

## **Chief Executive Statement**

The FFCL 2016 document repeats the 2011 message that *“acknowledgement must start at the top and lead to action”*. In response to this, the Council’s Chief Executive (Nigel Lynn) has affirmed that:-

**“This Council recognises that fraud is a significant issue nationally and that every successful fraudulent act places an additional financial burden on the honest residents and taxpayers of the District. In collaboration with both central government and our local partners, we will ensure that effective ongoing measures are in place to prevent, detect and pursue fraud against the Council.”**

## **Counter-Fraud Activities**

### ***General***

The Council is required to provide information on fraud arrangements, etc. in response to the annual request from the external auditors (Ernst & Young LLP), relating to the risks of, identification of and responses to fraud (relevant to ISA 240 – ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’).

The Council also participates in the annual (national) fraud survey conducted by CIPFA, which resulted in their ‘Fraud & Corruption Tracker summary report’ in 2018. The content of this report was drawn to the attention of senior management and the members of the Audit & Governance Committee.

Various publications and briefings on fraud are held by the Council (e.g. from central government, CIPFA, etc.) and the guidance and recommendations in these documents has been used as a basis for counter-fraud work by Internal Audit.

Arun District Council is committed to the prevention, detection and investigation of fraud and corruption. It is expected that all those who work for, serve or deal with the Council will act in a fair and honest way.

The Council has a specific Anti-Fraud, Corruption & Bribery Policy, including the requirements of the Bribery Act 2010, which was adopted by Full Council in October 2013. (This policy will require review and update in 2019, once Constitution, Code of Conduct and structure changes have been completed). There are also other policies and procedures that support and promote this.

There is also a published Fraud Response Plan, which has been reviewed / updated and the changes noted by the Audit & Governance Committee in December 2017.

The Council’s Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998) was reviewed / updated in 2017 and is published on the Council’s web site.

The Fighting Fraud Locally strategy recommended that Councils publicise the risks of fraud and encourage public response. Information on the key fraud risk areas facing the Council and contact numbers for members of the public to report suspected fraud cases / concerns is set up as a ‘Fraud’ area on the Council’s web site. A small number of articles in relation to fraud (e.g. Single Person Discount) have previously been provided by the Council for publication in the local press and updates have also been provided to Members (e.g. in respect of the work being undertaken on housing fraud).

No fraud and / or corruption investigations have been carried out during the year in respect of Members, under the Code of Conduct.

### ***Benefits Investigations***

Until December 2015, the Council had a small dedicated Benefits Investigations team handling benefit-related fraud and investigations. Under the Welfare Reform Act 2012, benefits investigations were centralised into a ‘Single Fraud Investigation Service’ operated under the control of the DWP, although the Council is still required to provide data to support DWP investigations. Members of the public are still encouraged to report suspected incidents of fraud

via the National Benefit Fraud Hotline or through a link to the appropriate [www.gov.uk](http://www.gov.uk) pages on the Council's website.

### ***Housing Tenancy***

As advised in past reports, housing tenancy fraud is an area of significant concern to the Government and this is now a criminal offence under the Prevention of Social Housing Fraud Act 2013.

The Council has over 3300 properties in its social housing stock. In 2017, following a successful pilot exercise, a dedicated Housing Fraud Investigator post (funded through the Housing Revenue Account) was added to the Council's structure on a permanent basis. In addition to investigating active fraud leads, the Investigator's remit includes prevention - working with other areas of Housing in respect of:-

- the verification process for acceptance to the Housing Register
- the process for verifying Right To Buy entitlement to purchase Council properties
- exchange and succession requests.

The arrangement continues to be successful and of considerable benefit to the Council, (in 2018/19):-

- 117 cases were investigated
- 14 properties were brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit (4 of these had been sub-let)
- 14 inappropriate applications to the Housing register were prevented
- approximately £16k of inappropriate housing benefit / Council Tax Reduction was recovered (linked to cases investigated)
- some joint investigations (relating to housing benefit / Council Tax Reduction) were also conducted with the DWP.

(Prevention of housing tenancy fraud allows the placement of new tenants from the Housing Register and potentially reduces emergency B&B costs – the industry standard indicative notional 'value' attached to this is now £93k per property recovered).

The total notional value of recoveries in 2018/19 was c.£1.4M and this was reported to the Overview Select Committee by the Cabinet member for Residential Services, who also advised them that as a result of this initiative 42 properties have now been returned to legal occupation over the last 2.5 years.

Council staff attend meetings of the Sussex Tenancy Fraud Forum and Housing management will continue to consider improvements in how potential fraud cases may be identified and investigated in the future. This may involve additional publicity in respect of the issue, additional visits to Council properties and further liaison with local social housing providers. The Council is also a member of the National Anti-Fraud Network (NAFN) and appropriate information may be obtained from them to assist in investigations work.

### ***Other Investigations***

Other than the two above areas, all other fraud work is the responsibility of Internal Audit (except for any electoral fraud issues, which are handled by the Returning Officer / Police).



### ***National Fraud Initiative***

The Council is a mandatory participant in the National Fraud Initiative (NFI), now operated by the Cabinet Office. This is a data matching exercise that involves comparing records held by one body against other computer records held by the same or another body to see how far they match. An example would be comparing Arun District Council Housing Benefit claimants with the licensed taxi drivers recorded by Arun and other Councils.

In October 2018, the Council provided the Cabinet Office with the data required for the main biennial NFI review (covering a wide range of areas e.g. housing, licensing, payroll, creditors, etc.). The reports received are under review by Internal Audit and Benefits staff.

Work on the NFI Council Tax Single Person Discount review (based upon data provided in October / December 2017) was completed in 2018. This resulted in 77 accounts having the discount removed and re-billing of approximately £66k.

In December 2018, Council Tax and Electoral Roll data was again provided for annual Council Tax SPD entitlement checking and the reports received reviewed. Queries on entitlement to SPD have been referred to the Revenues section for review and a number of records referred to the Elections section for removal from the Electoral Roll where (from review of Council tax records) they are known to no longer be resident at the recorded address.

### ***Other Revenues Activity***

The Council's Revenues area also undertakes a number of other checks in order to reduce the risk of fraud in respect of the eligibility for Council Tax and Non-Domestic Rates (NDR) exemption or reduction. These include:-

- inspection of empty business rated properties
- review of mandatory and discretionary NDR discounts
- review of entitlement to Council Tax exemptions and other discounts
- inspection of residential properties that have been empty for more than 2 years
- contact by the Empty Homes Officer with homeowners where the property has been empty for 6-18 months.

In respect of the last 2 points, a further 82 properties had the 'empty' status removed in 2018/19 which has a positive impact on the Council's New Homes Bonus income.

### ***Other Activity***

In 2018, the Finance Department commissioned a 3<sup>rd</sup> party provider to undertake a review of invoices paid by the Council in order to identify potential duplicate payments. The cost of this exercise was on the basis of a percentage of the amount recovered in respect of any duplicate payments identified. The results of the exercise confirmed the effectiveness of the current level of control over invoice processing at the Council, as only 6 items were challenged resulting in a recovery of approximately £9k from the invoices processed through the e5 system from October 2016-March 2018.

## **Local Government Transparency Code**

The Local Government Transparency Code, *'issued to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services'* was extended in 2014 to include fraud information.

The Council must now publish certain information on its counter fraud work on an annual basis and this will contain some information that is covered in more detail in this report (see Appendix 2 – which is published on the Council's website).

## **Future Activities**

Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone cannot guarantee that fraud or corruption will be detected.

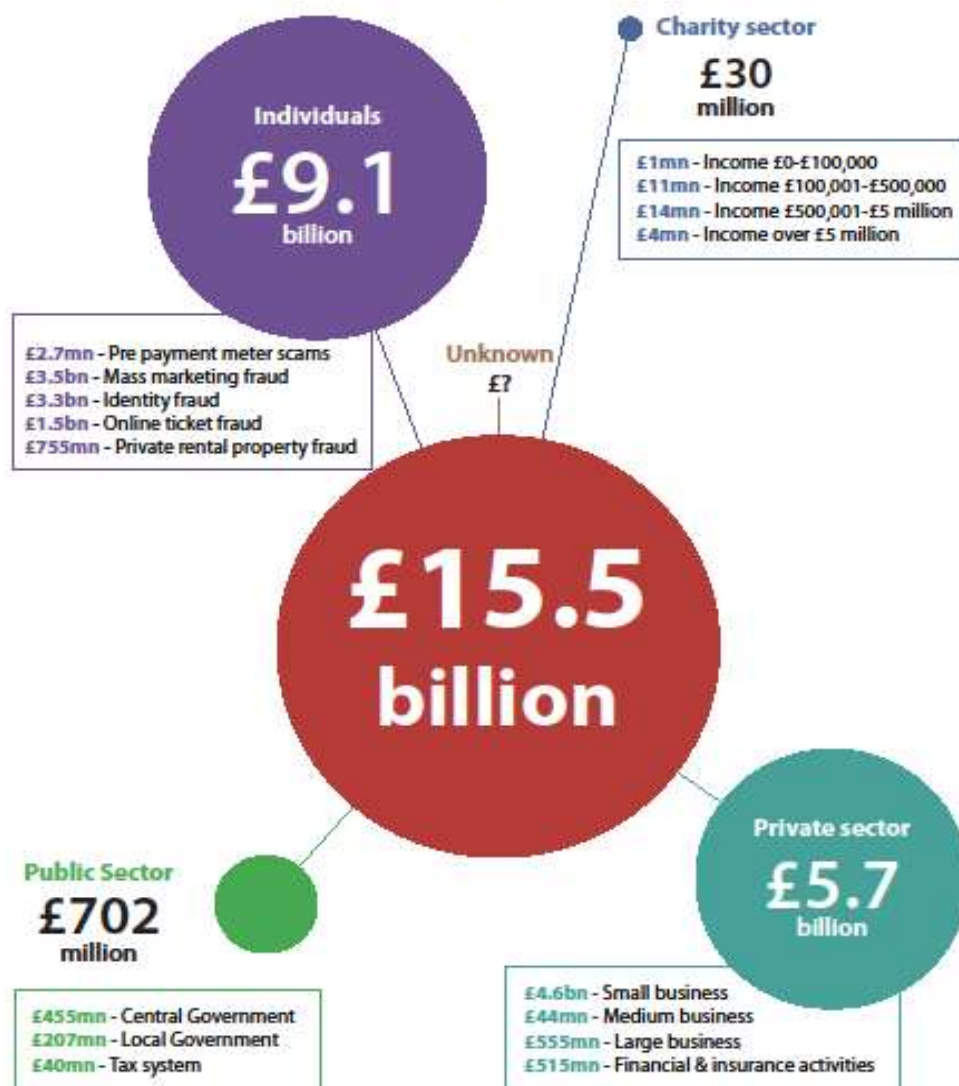
Internal Audit (or the Housing Fraud Investigator for tenancy-related cases) should be informed of all suspected or detected fraud, corruption or improprieties for investigation and to allow the effectiveness of any relevant controls to prevent / detect such cases to be reviewed. The implications of any identified fraud and corruption will also be assessed against the Council's overall governance arrangements. Internal Audit provides an annual opinion on the adequacy and effectiveness of the systems of internal control operating within the Council and any identified cases of fraud or corruption may influence this opinion.

Further to the publication of CIPFA's Code of Practice on Managing the Risk of Fraud & Corruption and the revised Fighting Fraud & Corruption Locally strategy, the Council will consider the content and the actions to be taken in the coming years and:-

- will monitor the progress of national initiatives and engage in the various consultations that will be required to implement the strategy
- will continue to examine reports on initiatives undertaken at other local authorities, together with published guidance and advisory documents, to ensure that lessons learnt and emerging fraud risks are considered as part of our counter-fraud activities
- will continue to assess our current activities against the best practice contained in the strategy for local consideration and ensure that our counter-fraud activities are as effective as possible
- will ensure that appropriate counter-fraud measures remain in place in service areas impacted by changes from management / operational restructures or efficiency / cost saving initiatives.

A significant amount of counter-fraud work is already performed by the Council and further work will be undertaken in high-risk areas (such as Council Tax and Housing), in addition to the continual consideration of emerging fraud risks and assessment of the Council's policies and procedures against best practice and appropriate guidance notes.

Figure 1: Identified fraud loss estimates by victim

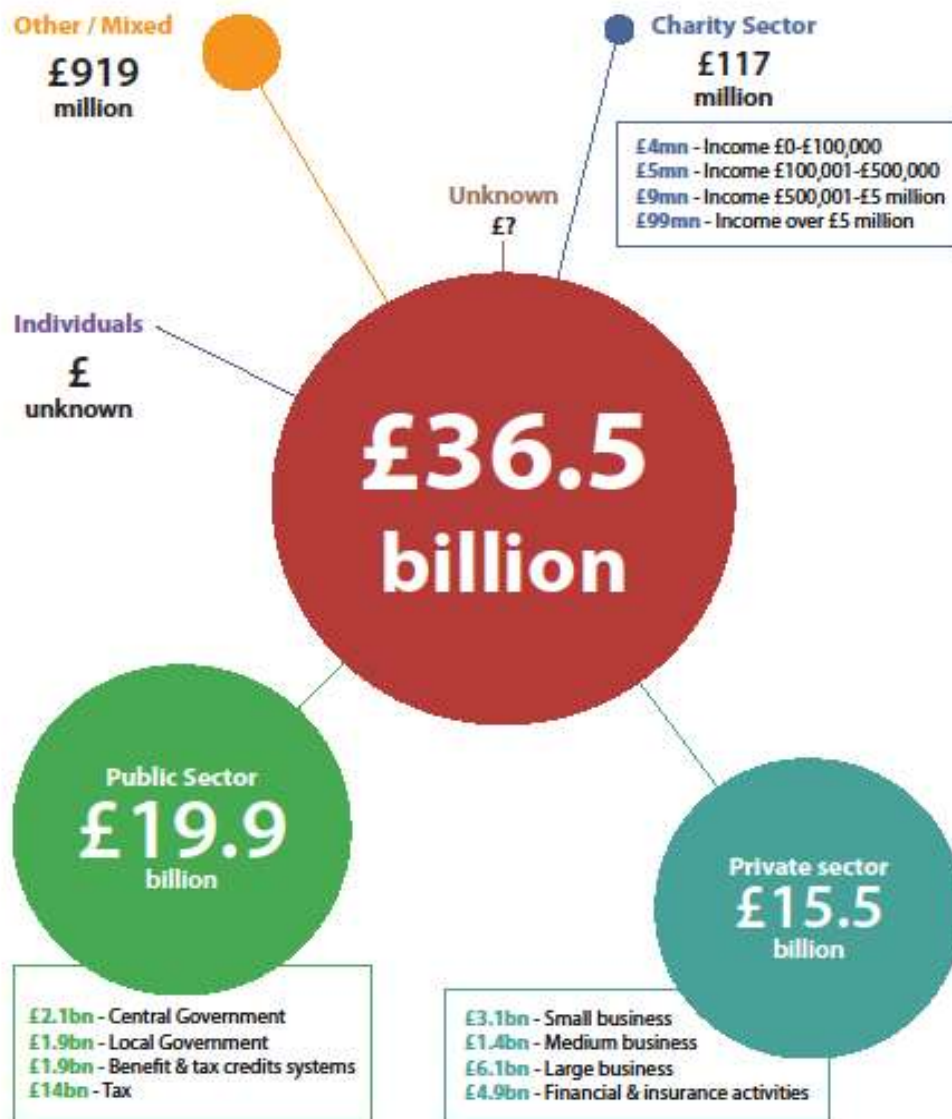


N.B: The identified fraud loss estimates include both identified fraud losses and estimates that have been extrapolated to sectors. It is not always possible to clearly demarcate fraud types to identified and hidden fraud losses as some estimates spread across both.

The identified fraud loss figures are likely to be an under estimate in some areas where the NFA have not been informed of detected losses, therefore, fraud losses are unknown, rather than zero or not present. See annex 2 for fraud by type breakdown.

Please note figures may not add up exactly due to rounding.

Figure 2: Hidden fraud loss estimates by victim



N.B: It is not always possible to clearly demarcate fraud types to identified or hidden fraud losses as some estimates spread across both. The hidden fraud loss estimate therefore includes those estimates that bridge both hidden and identified fraud losses (see annex 2).

See overleaf and annex 2 for a breakdown of losses within victim type.

Please note figures may not add up exactly due to rounding.

## Annex 2: Breakdown of losses by victim

Fraud loss by victim sector	Victim	Fraud type	Total estimated fraud loss	Fraud loss	Identified loss	Hidden loss
Public sector £20.6 billion	Tax system	Tax fraud	£14.0 billion	£14.0 billion	£14 billion	Unknown
		Vehicle excise fraud		£40 million	£40 million	Unknown
	Central government	Procurement fraud	£2.6 billion	£1.4 billion	£1.4 billion	Unknown
		Grant fraud		£504 million	£504 million	Unknown
		Television licence fee evasion		£204 million	£204 million	Unknown
		Payroll fraud		£181 million	£181 million	Unknown
		NHS patient charges fraud		£156 million	£156 million	Unknown
		NHS dental charge fraud		£73 million	£73 million	Unknown
	Local government	Student finance fraud	£2.1 billion	£31 million	£31 million	Unknown
		Pension fraud		£14 million	£14 million	Unknown
		National Savings and Investments fraud		£0.40 million	£0.40 million	Unknown
		Housing tenancy fraud		£845 million	£845 million	Unknown
	Benefit and tax credits systems	Procurement fraud	£1.9 billion	£876 million	£876 million	Unknown
		Payroll fraud		£154 million	£154 million	Unknown
		Council tax fraud		£133 million	£133 million	Unknown
		Blue Badge Scheme misuse		£46 million	£46 million	Unknown
		Grant fraud		£35 million	£35 million	Unknown
	Benefit and tax credits systems	Pension fraud	£1.9 billion	£71 million	£71 million	Unknown
		Benefit fraud		£1.2 billion	£1.2 billion	Unknown
	Tax Credits fraud			£670 million	£670 million	Unknown

\*Black, red, amber, green (BIRAG) Assessment Confidence Indicator

BIRAG	Level of confidence
Black	Poor
Red	Average
Amber	Good
Green	Excellent

Note:

Perceived level of confidence is based upon management assumptions and judgement to provide an illustrative indication of the quality of data available to produce an estimate. NB: It is not always possible to demarcate clearly the fraud by type estimates to identified or hidden losses as some estimates spread across both. Further, it should be noted that fraud identified as being 'unknown' does not mean that no fraud exists, but rather that no fraud has been identified, measured or is estimable. Not all fraud types are included in the breakdown due to the possibility of double counting. Due to rounding some figures may not add up exactly.



**Counter-Fraud for data transparency**

S43 of the Local Government Transparency Code 2014, requires local authorities to publish information about their counter fraud work.

The attached figures cover the period 1/4/2018 – 31/3/2019.

**Number of occasions powers were used under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers**

- |                  |          |
|------------------|----------|
| • Internal Audit | Not used |
| • Revenues       | Not used |
| • Benefits       | Not used |
| • Housing        | 10       |

**Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud**

- |                  |   |
|------------------|---|
| • Internal Audit | One employee (approx. 0.1 FTE) may be involved in investigations that could relate to fraud and also reviews potential fraud cases from annual National Fraud Initiative (NFI) reports received |
| • Benefits       | Investigations staff were transferred to the DWP SFIS in December 2015<br>One employee (0.65 FTE) is now engaged in a fraud liaison role  |
| • Housing        | Housing Fraud Investigator (1 FTE)  |
| • Legal Services | No prosecutions in 2018/19  |

**Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists**

- |                  |      |
|------------------|------|
| • Internal Audit | None |
| • Benefits       | None |
| • Housing        | 1    |

**Total spent by the authority on the investigation and prosecution of fraud**

- |                  |  |
|------------------|--|
| • Internal Audit | c. £6k (based upon staff time)   |
| • Revenues       | c. £2.5k (additional review of NFI reports) and c.£4k for credit reference agency matching |
| • Housing        | c. £44k (staff time, appropriate subscriptions and fees, etc.)                             |

**Total number of fraud cases investigated**

- |                  |   |
|------------------|---|
| • Internal Audit | General review of NFI reports only  |
| • Revenues       | 144 - information provided for 'joint' review by DWP<br>10 - Council Tax Reduction (CTRS) cases reviewed by the Council |

- Housing
  - 117 fraud case referrals investigated  
(of these, 9 also resulted in investigation into the tenant's housing benefit / CTRS)
  - 14 properties brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit
  - 14 inappropriate applications to the Housing register prevented.

It should be noted that more detailed information on the Council's counter-fraud activities is presented to the Audit & Governance Committee in July, covering the previous financial year. A copy of this report is provided on the Data Transparency web page.

<https://www.arun.gov.uk/transparency>

## ARUN DISTRICT COUNCIL

### REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2019

#### PART A : REPORT

**SUBJECT:** Internal Audit Annual Report & Opinion 2018/19

**REPORT AUTHOR:** Stephen Pearce, Internal Audit Manager

**DATE:** July 2019

**EXTN:** 37561

**PORTFOLIO AREA:** Corporate Support

#### EXECUTIVE SUMMARY:

Internal Audit discharges its duties through the completion of an agreed audit plan designed to provide independent assurance that the Council's business risks are being managed to an appropriate level

This report summarises the activities of the Council's Internal Audit service for 2018/19

#### RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note the Internal Audit Annual Report & Opinion 2018/19 report and to endorse the work carried out by Internal Audit in 2018/19

#### 1. BACKGROUND:

The purpose of this report is to summarise the work carried out by Internal Audit during the year ended 31<sup>st</sup> March 2019. The work of Internal Audit and the resultant overall opinion on the Council's control environment, which is derived from the work performed, provides those charged with governance a source of assurance that is necessary to support the Council's Annual Governance Statement (AGS) which accompanies the Annual Accounts.

The Internal Audit Manager is required to provide an 'independent' opinion on the adequacy and effectiveness of the systems of internal control operating within the Council. This will provide the signatories to the AGS (the Chief Executive and Leader of the Council) with a degree of assurance on this matter. In reaching the opinion, consideration has been given to the Council's governance arrangements and to the internal control environment in the light of the work of Internal Audit carried out through the year.

Consideration has also been given to the findings of the Council's external auditors (Ernst & Young LLP), who gave an unqualified opinion to the Council's Annual Accounts for 2017/18 which were approved by the Audit & Governance Committee in July 2018.



<b>2. PROPOSAL(S):</b>		
It is proposed that the Committee notes the Internal Audit Annual Report & Opinion 2018/19 report and endorses the work carried out by Internal Audit in 2018/19		
<b>3. OPTIONS:</b>		
To note the Internal Audit Annual Report & Opinion 2018/19 report and endorse the work carried out by Internal Audit in 2018/198, or not		
<b>4. CONSULTATION:</b>		
No specific consultation has been undertaken in respect of this report		
Has consultation been undertaken with:	<b>YES</b>	<b>NO</b>
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	<b>YES</b>	<b>NO</b>
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
<b>6. IMPLICATIONS:</b>		
<b>7. REASON FOR THE DECISION:</b>		
The Committee notes the Internal Audit Annual Report & Opinion 2018/19 report and endorses the work carried out by Internal Audit in 2018/19		
<b>8. BACKGROUND PAPERS:</b>		
N/A		



# Internal Audit

## Annual Report & Opinion 2018/19



# **Introduction**

## **Purpose of the report**

This report summarises the work carried out by Internal Audit during the year ended 31<sup>st</sup> March 2019. The work of Internal Audit and the resultant overall opinion on the Council's control environment, which is derived from the work performed, provides those charged with governance a source of assurance that is necessary to support the Council's Annual Governance Statement (AGS) which accompanies the Annual Accounts.

The Internal Audit Manager is required to provide an 'independent' opinion on the adequacy and effectiveness of the system of internal controls operating within the Council. This will provide the signatories to the AGS (the Leader of the Council and the Chief Executive) with a degree of assurance on this matter. In reaching the opinion, consideration has been given to the Council's governance arrangements and to the internal control environment in the light of the work of Internal Audit carried out through the year.

Consideration has also been given to the findings of the Council's external auditors, who gave an unqualified opinion to the Council's Annual Accounts for 2017/18, which were approved by the Audit & Governance Committee in July 2018.

In accordance with the requirements of the Code of Practice on Local Authority Accounting, this report outlines the level of assurance that Internal Audit is able to provide, based upon the work undertaken during the year. In reaching an overall opinion, consideration is given to:-

- the effectiveness of the system of internal controls in meeting the Council's objectives
- common or significant weaknesses arising
- major findings where action has not been taken within a reasonable time.

However, it should be noted that this assurance can never be absolute. Internal Audit can only provide a reasonable assurance that there are no major weaknesses in the systems of internal control from the work that they perform and their knowledge of the organisation as a whole.

## **Background**

Internal Audit is an assurance function that provides an independent and objective opinion to the Council on governance, internal control and risk management, by evaluating their effectiveness in achieving the Council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

CIPFA's Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note (LGAN) replaced the Code of Practice from 1<sup>st</sup> April 2013 and compliance with the PSIAS is mandatory. These standards are based upon the mandatory elements of the Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF), which were already included in the processes of the service.

The standard definition of internal auditing (adopted by both the Chartered Institute of Internal Auditors and CIPFA) is that:-

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

The provision of Internal Audit is a statutory requirement, which was updated in the Accounts & Audit Regulations 2015 (as referenced in the Local Audit & Accountability Act 2014) which now state that *“a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

### **Role of Internal Audit**

In 2018/19, the Council’s internal audit work was provided by the Internal Audit section which forms part of the Corporate Support Group.

An updated Internal Audit Charter, incorporating the requirements of the PSIAS, was agreed by the Audit Committee and approved by Full Council in 2013. This establishes and defines the role, authority, scope of work, organisational independence, resource requirements and reporting lines of Internal Audit. (Subsequent minor changes to the PSIAS have been incorporated into the Charter and approved by the Committee).

Internal Audit continually seeks to adapt and enhance its approach, in order to take account of the Council’s risk profile and emerging issues, to ensure that audit work remains focused on the areas of highest risk and provides added value to service areas and to the Council as a whole.

Managing the risk of fraud and corruption within the Council is the responsibility of the Chief Executive, supported by the Corporate Management Team and service area management. Internal Audit will be alert in all their work to risks and exposure that could allow fraud or corruption to occur and has a specific responsibility for ensuring that all potential frauds and irregularities are investigated in an appropriate manner. Arrangements are in place to ensure that Internal Audit is notified of all suspected or detected fraud, corruption or impropriety, which enables the most appropriate course of action to be determined. However, the role of Internal Audit excludes:-

- benefits fraud – which had its own specialist team of investigators, until they transferred to the DWP Single Fraud Investigation Service (SFIS) in December 2015. Any suspicious housing benefit cases identified by the Council would now be referred to the SFIS for review, although consideration of any Council Tax Reduction Scheme issues would still be handled by the Council’s Revenues area
- housing tenancy fraud – the Council commenced a pilot exercise in 2016 with the creation of a dedicated housing fraud investigator post. This exercise has proved successful and the post was made permanent in 2017

- electoral fraud – handled by the Returning Officer, in liaison with the Police.

Under the Comptroller and Auditor General's Code of Audit Practice (which applies for 2015-16 audits and beyond) and the requirements of the International Standards on Auditing, external audit may use the work of Internal Audit where appropriate, to support its conclusions. Regular liaison takes place between the Group Head of Corporate Support, Internal Audit and the external auditors to ensure that resources are best utilised and that duplication of effort is avoided.

It should be noted that the transitional arrangements following the abolition of the Audit Commission have now expired. The Council opted-in to the sector-led approach for the appointment of its future external auditors and contracts for the 5-year period from 2018/19 have now been let by Public Sector Audit Appointments Ltd (PSAA), who are incorporated by the Local Government Association and had previously progressed the transitional appointments process. As a result of this process, the Council's appointed external auditors for the annual accounts work will remain as Ernst & Young LLP.

## **Internal Audit Coverage and Outcomes**

### **Overview of Audit Work Carried Out**

The Audit Plan is agreed annually by the Audit & Governance Committee. The Plan is designed to be flexible and responsive to change, emerging risks and issues identified throughout the year. We have therefore liaised closely with senior management to ensure that this is achieved and the work performed has been amended accordingly to ensure it represents the best use of our resources.

As at 22<sup>nd</sup> February 2018, the Audit & Governance Committee approved the Annual Internal Audit Plan, based upon the 2.0 FTE available (representing 381.5 'chargeable' days for the year). As noted in the previous years, it was anticipated that the section would continue with the current resources to contribute to the Council's cost savings initiatives, although the resourcing situation would be kept under review. Resource is therefore directed to 'chargeable' work wherever possible (i.e. working days, excluding annual leave, sickness, training, management and administration).

This Plan was again prepared at a high level and aimed to ensure that mandatory work was completed, that there was appropriate involvement in the progress of the Council's 2020 Vision initiative / ongoing restructuring and, where practical, to progress work on the highest risk areas identified.

The Plan presented had been prepared to reflect the management / operational structures in place and agreed corporate priorities. Progress against the Plan was affected by the effects of a number of factors, the most significant of which were:-

- the ongoing management and operational restructures across the Council as part of the Council's Vision 2020 work (with Housing still to be completed in 2019)
- further high levels of sickness within the section, which reduced the number of work days available
- higher levels of (non-chargeable) administration than planned, due to the requirements for the review and, where appropriate, destruction of data (electronic, paper, emails, etc.) in order to comply with agreed retention requirements in preparation for the introduction of the General Data Protection Regulation (GDPR)
- work on the 2017/18 National Fraud Initiative Council Tax single person discount exercise being delayed until mid-2018.

As well as reviews that result in a formal report, the Internal Audit section performed additional work of an ad hoc or ongoing nature. Such work formed part of the approved Plan and included:-

- checking of annual Council Tax precept calculations
- investigation and reporting on the data matches provided by the Cabinet Office, as part of the National Fraud Initiative and liaison with service areas in respect of queries
- regular checking of payroll joiners and leavers

- regular testing on new housing benefit claims, on behalf of the external auditors
- special investigations (as required)
- review and update (where required) of Internal Audit and corporate (where there are security, etc. risks involved) policies and documents including:-
  - Anti-Fraud, Corruption & Bribery Policy
  - Regulation of Investigatory Powers Act (RIPA) 2000 – Corporate Policy and Procedures
  - Whistleblowing Policy
  - Audit & Governance Committee workplan and terms of reference
  - Internal Audit Charter
  - Assessment of the Effectiveness of the Audit Committee
  - Assessment of the Effectiveness of Internal Audit
- chairing meetings of the Council's Information Security Group (with additional work involving liaison with the Data Protection Officer and ICT staff on the Council's preparations for the introduction of the General Data Protection Regulation in 2018 and the review / update of relevant information security policies)
- review of the Council's Strategic Risk Register for approval by CMT and the Audit & Governance Committee
- attendance at meetings of the Governance & Risk Group and other appropriate officer groups.

On a periodic basis, Internal Audit provides the Audit & Governance Committee with reports:-

- showing progress in the year against the agreed Audit Plan
- summarising the key findings of audits completed in the previous period.

Due to the resource issues noted above, updates to the Committee in 2018/19 were generally via the progress report rather than formal audit reports.

## **Review of Governance Arrangements**

To assist the Council in assessing and developing its governance arrangements, Internal Audit considers on an annual basis the effectiveness of the main systems of internal control and corporate governance, in order to provide assurance to support the preparation of the Council's Annual Governance Statement. In undertaking this work, Internal Audit utilises a number of approaches:-

- the results of audit work previously undertaken within the Council
- annual review / update of the Council's local Code of Corporate Governance
- annual assessment of compliance with the local Code, including discussion of governance issues with appropriate Service area management
- consideration of the reliance that can be placed upon work undertaken within the Council by any other internal and external sources of assurance
- via membership of the Governance & Risk Group, ensuring that Service areas prepare / maintain Operational Risk Registers and confirm that appropriate risk management processes are in place to contribute to the overall governance of the Council

- receipt of 'assurance letters' from Corporate Management Team members to confirm that risks are being appropriately managed within their Directorates
- assessment of other relevant sources of information that provide assurance (e.g. fraud reporting, feeding into ISA 240 responses in respect of the identification of, and controls to prevent, fraud required by the external auditors)
- consideration of comments and findings of the Council's external auditors and other relevant review agencies / inspectorates
- an 'assurance mapping' process has also been commenced to consolidate multiple sources of assurance into a single document for assessment purposes. This is an approach promoted by the relevant professional bodies and will continue to be developed in 2019/20, in liaison with members of the Sussex Audit Group.

## **Overall Internal Audit Opinion**

The level of assurance that can be provided is based upon the Internal Audit work carried out during the year and takes into account:-

- the quality and performance of Internal Audit work (both formal, reported reviews and ad hoc liaison with service areas / management)
- follow-up action taken on previous recommendations
- individual audit opinions given in published audit reports
- any significant recommendations not accepted by management and the risks involved
- the extent to which resource constraints may limit Internal Audit's review of the overall control environment
- impact of significant changes to the Council's risk profile and the internal control environment
- any significant issues (errors, control breaches, fraud, etc.) identified by / drawn to the attention of Internal Audit through the period
- the quality and performance of the service and extent of compliance with the Public Sector Internal Audit Standards.

Subject to the resource constraints noted above and the need to prioritise work through the year against mandatory / higher risk tasks, I am satisfied that the assurance work undertaken allows a reasonable and objective opinion on the adequacy and effectiveness of the Council's internal control environment for 2018/19. The internal control environment comprises internal control, risk management and governance arrangements.

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 have agreed an action plan with the Regulator which will be monitored on a monthly basis



with the target of being compliant by November 2019. This will cover 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. As part of the ongoing Housing Department restructure, appropriate job roles will be confirmed / created to ensure future compliance and departmental policies and staff training are also being reviewed.

No assurance can ever be absolute. However, based upon the work undertaken and the lack of any significant issues identified (other than that noted above), my overall opinion is that a (generally) satisfactory level of assurance can be provided that an effective system of internal control has been in place and operating effectively at Arun District Council for the year ended 31<sup>st</sup> March 2019. (The Definitions of Assurance Level are contained in Appendix 1 of this report).

Internal Audit work during the year has identified weaknesses and specific actions for improvement of the control environment, with key issues being reported to meetings of the Audit & Governance Committee. Internal Audit will continue to work closely with management to ensure actions are successfully implemented within reasonable timescales and, if appropriate, follow-up reviews will be performed.

## **Internal Audit Performance**

### **Performance Indicators**

The revised 2018/19 Annual Audit Plan included 381.5 'chargeable' days (i.e. excluding leave, sickness, administration/management, training), with the actual achieved figure in the year being 312.5 days.

Service areas of the Council are required to establish appropriate internal performance indicators to allow the measurement and review of performance / effectiveness. The Audit Committee approved a number of performance measures for Internal Audit in December 2007, which would contribute to their opinion on the effectiveness of Internal Audit.

The internal indicators are agreed with the Group Head of Corporate Support. The target values for 2018/19 reflect the approved Plan:-

	Target 18/19	Actual 18/19	Historic 17/18	Notes	Target 19/20
Annual Audit Plan - Actual audit days achieved against profiled Audit days	100%	82% <sup>(1)</sup>	92%	This relates to the % of 'chargeable' days recorded against those in the Plan	100%
Operating costs of internal audit per chargeable day	£332	£341 <sup>(2)</sup>	£292	Target is based on budget figures (2.4FTE) and chargeable days	£344
Utilisation of resource rate per annual audit plan	88%	87%	84%		88%
Results from audit satisfaction feedback	No adverse	No adverse	No adverse	No adverse comments received in 2019/19	No adverse

surveys	comments	comments	comments		comments
Annual Audit Plan - Audit assignment days against overall chargeable days	77%	65% <sup>(3)</sup>	69%	This relates to the % of formal planned audits, as opposed to other chargeable time (e.g. liaison, investigations, etc.)	76%
External audit reliance on the work of Internal Audit is satisfactory	Yes	n/a	n/a	No relevant adverse comments are raised in external auditor's Annual Results Report / Annual Audit Letter	Yes

- (1) - under-performed due to there being less chargeable days available than planned  
(2) - £20k underspend against budget, due to running with only 2.0FTE, but less chargeable days  
(3) - some 17/18 NFI work was delayed into 18/19, as well as completion of the 2 NFI 18/19 exercises

It should be noted that, under the Council's revised performance management processes, the above indicators are no longer included as part of the Service Delivery Plan but continue to be maintained operationally and reported to the Audit & Governance Committee. These (and potentially, other operational indicators) will also be maintained to allow benchmarking against other contributing local Councils through the Sussex Audit Group.

The Audit Plans presented to the Committee for 2017/18-onwards have been prepared on a slightly different basis to those in earlier years. This is as a result of the shared services 'preparation' work in 2016, whereby a more common planning methodology and classification of chargeable / non-chargeable time was agreed for possible future use by the 3 Councils. Although the shared service was not progressed, this has been used as the basis for the new Plan including the revised performance measure targets.

As audits are becoming increasingly more complex, covering Council-wide subjects with input from multiple diverse service areas, there is less use of individual audit satisfaction feedback surveys. In 2015, a revised survey covering the service(s) provided by Internal Audit was sent to managers across the Council with the results received demonstrating a high level of satisfaction with the section. Although it was anticipated that the survey would be repeated annually it has not yet been appropriate to conduct it again due to the impact of the 2020 Vision programme / restructuring and management changes. It is anticipated that the survey will be repeated once the Council's revised management and operating structure is finalised.

## Review of Internal Audit

The Accounts & Audit (England) Regulations 2011 required that "*A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.*" This was primarily against the CIPFA Code of Practice for Internal Audit in Local Government / the PSIAS from 1<sup>st</sup> April 2013). However, as noted above, the wording has changed in the 2015 Regulations which now require an effective internal audit "*taking into account public sector internal auditing standards or guidance*".

The PSIAS (standard 1311) requires “*periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices*”. This has been formalised into a Self-Assessment Checklist Measuring the Effectiveness of Internal Audit, which was presented to the Committee in July 2018, and has been reviewed and updated in 2019. This will now be used as part of the external quality assessment process (Standard 1312) mentioned below.

## Standards / Compliance

The service operates to a published Internal Audit Charter, which is approved by the Audit & Governance Committee, and reflects standards of best professional practice applicable to internal audit. Until 2012/13, these were primarily the Institute of Internal Auditors’ International Professional Practices Framework (IPPF) and the CIPFA Code of Practice for Internal Audit in Local Government. (In 2019/20, there will be a need to review and update the Charter to bring it more into line with current recommendations as to format and content).

From 1<sup>st</sup> April 2013, the CIPFA Code was replaced by the Public Sector Internal Audit Standards (PSIAS) which are based upon the mandatory elements of the IPPF. The requirements of the PSIAS were considered and the degree of compliance assessed, in preparation for their introduction, and a number of minor changes to working practices and the Internal Audit Charter have been made to reflect them.

The PSIAS requires that “*the results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.*” A Quality Assurance & Improvement Programme (QAIP) review was conducted in 2012 and has been updated annually. While this indicated no significant issues with the operation of the service, the following items of potential ‘non-compliance’ were identified and an explanatory note or details of actions to be taken provided:-

Standard	Requirement	Explanation / Actions
<b>1100</b>	<b>Independence and Objectivity</b>	
<b>1110</b>	<b>Organisational Independence</b> The chief audit executive should report functionally to the board For most purposes in the PSIAS, the term ‘board’ will relate to the Audit & Governance Committee (A&GC)	Senior Council management will be responsible for the following, rather than the ‘board’:- <ul style="list-style-type: none"> <li>• Approving the internal audit budget and resource plan</li> <li>• Approving decisions regarding the appointment and removal of the chief audit executive</li> <li>• Approving the remuneration of the chief audit executive.</li> </ul> <i>While the A&amp;GC is not directly responsible for the above, any issues would be raised with them for consideration.</i>
<b>1110</b>	<b>Organisational Independence</b> While the requirements would not generally involve the board approving the CAE’s remuneration specifically, it should be ensured that the remuneration or performance assessment is not inappropriately influenced by those	The guidance recommends that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.

	subject to audit	<p><i>Until 2017, the review and countersigning of the CAE performance was undertaken by the Resources Director &amp; Deputy Chief Executive. As part of the Council's management restructure, this post no longer exists and input will now be provided by the Chief Executive (who now has responsibility for the Corporate Support area).</i></p> <p><i>Feedback on internal audit performance is also obtained from the A&amp;GC when reviewing the Internal Audit Annual Report &amp; Opinion and periodic progress reports.</i></p>
<b>1310</b>	<b>Requirements of the Quality Assurance and Improvement Programme</b>	
<b>1312</b>	<p><b>External Assessments</b></p> <p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.</p> <p>The scope of the assessment and qualifications / independence of the external assessor must be agreed with the board</p>	<p>This requirement was drawn to the attention of the A&amp;GC at its September 2012 meeting, when the changes to the Internal Audit Charter for the draft of the PSIAS were presented.</p> <p><i>CIPFA advised that local government bodies should have this completed by March 2018. The Sussex Audit Group has previously agreed a cost-effective, collaborative arrangement for this requirement to be met. A number of external quality assessment (EQA) reviews have now been conducted across Sussex, but the Arun review has been delayed and will be pursued through the Sussex Audit Group in 2019.</i></p>
<b>1320</b>	<b>Reporting on the Quality Assurance and Improvement Programme</b>	
<b>1321</b>	<p><b>Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"</b></p> <p>The CAE may state that internal audit activity "conforms" only if the results of the QAIP support this statement</p>	<p>Until an external assessment has been conducted, as required by the QAIP, and any issues raised have been addressed a full conformance statement is not appropriate.</p> <p><i>The current statement made in the Internal Audit Charter is that "The service operates with reference to standards of best professional practice applicable to internal audit."</i></p>

## Service Risks

The following current risks to the Internal Audit service have been identified:-

### Resourcing

- As reported to the Committee last year, the resource of the section reduced from 2.4 FTE to 2.0 FTE from the end of August 2017. In view of the requirements for costs savings, it was anticipated that the section would continue with this level of resource in the short-term, pending consideration of the longer-term resourcing of the section.

*(NB – it should be noted that this is currently only a slightly lower level of resource than had been proposed for a possible shared service in 2016, which had been based upon 2.1 FTE and 400 chargeable days).*

- The Plan is based upon what is achievable with the current resource level, but there is a risk that resource could be further impacted in the future. This could mean that key financial systems do not receive adequate audit coverage and/or the degree of assurance obtained from the annual audit opinion would be further reduced due to less work being performed to consider the internal control environment (as has been the case with sickness in 2018/19). If this situation were to continue, consideration could be given to the use of additional, short-term contract resource to assist in the progress against the planned assignments
- While this continues to be manageable on a short-term basis at the present time, there is a strain on resource particularly where urgent priority tasks arise through the year and this has impacted upon the number of formal, reported audits achieved, with shorter pieces of liaison / consultancy work undertaken and reported to the Audit & Governance Committee via the periodic progress report.
- In the longer-term, consideration will be needed as to the future resourcing and operation of the section as past cost savings exercises means that there is now limited funding available. Once appropriate options have been identified, they will be discussed with the Chairman and presented to the Committee, if appropriate.

#### Changes To The Schedule Of Committee Meetings

- From 2018, changed accounting requirements mean that the deadlines for the completion of the draft and final Accounts have been brought forward to 31<sup>st</sup> May and 31<sup>st</sup> July annually.
- As Committee memberships are not known until the Annual Council meeting (generally in mid-May) and in election years (e.g. 2019) there is a purdah period, it was agreed that it would now be impractical to hold a meeting at the end of May, so the agenda items for the meetings formerly held in June and September will be combined into a meeting at the end of July. This will then consider the audited Annual Accounts, associated documents and annual reports for the Committee. The Committee will now meet 3 times a year, with a meeting required in February to allow time for the recommendations of the Committee on the Treasury Management Strategy Statement & Annual Investment Strategy to be presented to Full Council for approval before 31<sup>st</sup> March. The third meeting will then be arranged at a convenient time between the other meetings.
- The terms of reference for the Committee allow for additional 'special' meetings to be held, should the need arise. While there appears no reason why the revised arrangement should not be adequate, officers will monitor the situation to ensure that the workload of the Committee does not become unmanageable within this schedule of meetings.

## **Conclusion and Acknowledgment**

The Internal Audit overall opinion has been provided on the basis of work undertaken during 2018/19 and any carry-over of work that has been carried out to date in the current year. Any significant issues that arise from further Internal Audit work carried out up until the Annual Governance Statement is approved on 30<sup>th</sup> July 2019 will be reported to the Audit & Governance Committee at that time.

Internal Audit is a support service that assists the Chief Executive and Group Head of Corporate Support in satisfying the Council's statutory obligations under Section 151 of the Local Government Act 1972. In addition, it aids management by helping to ensure that adequate systems of internal control are in place and are complied with. Fulfilling this role depends very much upon the co-operation of Members and Officers and we would like to thank all colleagues for the continued assistance given to Internal Audit staff throughout the year.

## **Appendix 1**

### **Definitions of Assurance Level**

Level of Assurance	Description
Substantial	There is a sound system of control in place which minimises risk to the Council Control objectives are consistently achieved, with few errors or weaknesses
Satisfactory	There is an adequate system of control in place, but there are some weaknesses which may place the Council at risk Control objectives are generally achieved, but there is a lack of compliance with some controls
Limited	There are weaknesses in the system of control which places the Council at risk Key controls may be absent and/or there is often a lack of compliance with controls
No	The system of control is generally weak leaving the system open to significant error or abuse There is a significant level of non-compliance with basic control processes

These definitions have been altered slightly in 2018 to bring them more into line with the definitions in use by other Sussex Audit Group members and will be included in the next update to the Internal Audit Charter

### **Implementation of Internal Audit Recommendations**

As part of the audit process, the results of work undertaken are discussed with management and recommendations for improvement and actions to be taken to address the issues raised agreed, prior to being included in a formal report. It is the responsibility of Service area management to address the issues identified within the agreed timescales.

There is still some scope for improving the speed with which remedial action is taken by management where weaknesses in controls have been identified. Internal Audit will work with Service Heads to strengthen progress reporting and the processes that enable the status of all recommendations to be tracked and responsible managers held to account for implementation of agreed actions within allocated timescales.

### **Major Recommendations Not Implemented Within A Reasonable Timescale**

When an audit finding is raised and agreed by management, a target resolution date is also agreed. In general, the timescales should be realistic and Internal Audit will liaise with management/follow-up the issues to ensure that the agreed actions are completed.

However, in some cases other factors will impact the successful implementation of the agreed actions and these may be outside of the direct control of the Service area. Internal Audit may agree a revision to the target date and continue to monitor progress.

At the start of April 2019, a report of outstanding audit findings was presented to the Council's Corporate Management Team. The discussions noted that there are still a small number of known, long-term items (e.g. the introduction of the Community Infrastructure Levy) that are in progress, but which cannot currently be resolved. However, since the last report was presented to CMT in May 2016 a number of long-term issues have been addressed (e.g. the adoption of the Local Plan) as well as issues where progress was impacted by the Vision 2020 work / management restructure which has now been completed.



The following significant issues from past Internal Audits are noted as outstanding:-

Audit	Date Report Issued	Issue(s) Raised	Original Target Date	Current Position
Information Technology – Physical Security & Disaster Recovery	Dec 2009 / Follow-up report issued Apr 2014	Multiple items in respect of IT disaster recovery arrangements	Mar 2010	<p>The Council's IT recovery arrangements have been subject to considerable change in recent years, including the implementation of the Storage Area Network (SAN) at the Civic Centre and a back-up SAN at the WSCC site in Chichester, to which regular automated off-site back-ups are being transmitted. However, the completion of appropriate documentation remains outstanding.</p> <p>The ICT &amp; Service Improvement Manager considered resilience in the ICT Service Strategy 2019-2023 adopted by Members and will progress the documentation issue in 2019</p> <p>The risk consultancy area of the Council's former insurers (Zurich Risk Engineering) has assisted in work on the Council's business continuity arrangements. This has resulted in a draft Corporate BCP and workshops were held in 2016/17 to assist service areas in completing an updated Business Impact Assessment (BIA) for each area, which will identify recovery requirements and service priorities. These must be agreed and aligned with the ability to provide appropriate IT services in the event of a disaster.</p> <p>This work stalled during the Council's restructure and is now being progressed (as at 4/19) with the assistance of ZRE to reflect the new structure and organisational needs</p>
Payment Card Industry – Data Security Standard (PCI-DSS) Compliance	Jan 2012	Actions required to achieve compliance / obtain certification	July 2012	<p>A PCI-compliant call recording solution was completed in the Contact Centre in 2014 and has since been replaced as part of the Contact Centre telephony changes in 2018.</p> <p>An external consultant performed a review of the actions required for compliance – these would require additional IT work (firewalls, etc.) and/or working practice changes (none of which were felt to be</p>

				<p>acceptable by the then Director of Customer Services due to costs and service impact).</p> <p>At the present time, the risk to the Council has therefore been accepted by senior management</p>
Partnerships	Oct 2015	Multiple items in respect of the identification / governance of partnership arrangements	During 2016	<p>The audit of partnerships was reported to the Corporate Management Team in 2015. A plan of action was agreed at this time, but progress was delayed by the need to consider possible alternative service delivery arrangements as part of the wider 2020 Vision work and also by the responsibility and operational changes resulting from the Council's management restructure.</p> <p>The priority of the Group Head of Policy is the conduct of the various elections and the recommended review into the identification and governance of partnerships will now be progressed in 2019</p>
Data Retention	Various	Multiple audits have raised issues in respect of data retention (and destruction) requirements / compliance with the Data Protection Act	Various	<p>As part of the preparation for the 2018 General Data Protection Regulation (GDPR), a data audit exercise was conducted across all service areas. A corporate Records Retention and Disposal Policy was approved by Full Council (9/17). Requirements of Housing and other service areas have been finalised and work is to progress to apply this to scanned data stored in the Council's EDRMS</p>
Health & Safety	January 2013	Corporate property inspections	April 2013	<p>Progress has been delayed owing to a long outstanding vacancy and there remains no comprehensive inspection programme for corporately-owned properties (i.e. General Fund assets where the Council has landlord responsibility). This issue has been raised again with CMT and the Director of Place is to report back to CMT in mid-2019</p>

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## AGENDA ITEM NO.

### **ARUN DISTRICT COUNCIL**

#### **REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2019**

#### **PART A : REPORT**

<b>SUBJECT:</b> Progress Against the Audit Plan
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<b>REPORT AUTHOR:</b> Stephen Pearse, Internal Audit Manager
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<b>DATE:</b> July 2019
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<b>EXTN:</b> 37561
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<b>PORTFOLIO AREA:</b> Corporate Support
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#### **EXECUTIVE SUMMARY:**

Each year Internal Audit undertakes its work against an annual audit plan, as approved by the Audit & Governance Committee prior to the start of the financial year

The Committee is required to oversee the provision of an adequate and effective internal audit service

#### **RECOMMENDATIONS:**

Members of the Audit & Governance Committee are requested to note the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February meeting

#### **1. BACKGROUND:**

An outline Audit Plan was presented to, and approved by, the Committee at its February 2019 meeting reflecting the resource currently available. The aim of the plan was to ensure that mandatory work is completed, that there is appropriate involvement in the progress of the 2020 Vision initiative / ongoing transformation and to progress audit work on the priority / highest risk areas identified.

However, the Committee was advised that, although the revised management structure has been finalised, some lower level organisational changes are still being progressed and there is still considerable uncertainty as to where audit resource may be required in the year.

The attached report identifies the main areas of work undertaken by the Internal Audit section to July 2019.

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

It is proposed that the Committee notes the content of the report on progress made

against the outline Audit Plan agreed by the Committee at its February meeting		
<b>3. OPTIONS:</b> To note the contents of the report, or not		
<b>4. CONSULTATION:</b>		
Has consultation been undertaken with:	<b>YES</b>	<b>NO</b>
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
<b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	<b>YES</b>	<b>NO</b>
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
<b>6. IMPLICATIONS:</b>		

<b>7. REASON FOR THE DECISION:</b> The Committee notes the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February meeting
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<b>8. BACKGROUND PAPERS:</b> N/A
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### **Audit Progress**

At the Audit & Governance Committee meeting of 14 February 2019, the Committee agreed an outline plan for the section for 2019/20.

Since the plan was provided to the Committee, work has been undertaken in the following areas:-

<u>Code</u>	<u>Title</u>	<u>Work performed</u>
RE03	Main Accounting	<ul style="list-style-type: none"> <li>Self-assessment of Council arrangements / financial resilience against CIPFA's draft (consultation version) Financial Management Code commenced</li> <li>(E&amp;Y) Key controls testing completed</li> </ul>
RE04	Purchase Ledger	<ul style="list-style-type: none"> <li>Monitoring progress of roll-out of new procedure for corporate credit cards (following 2018/19 audit)</li> <li>Liaison with Finance regarding possible introduction of virtual or embedded credit cards as payment methods</li> <li>Ongoing monitoring of order amendment process (Jasper update required – to be progressed by Finance / vendor)</li> <li>(E&amp;Y) Key controls testing completed</li> </ul>
RE05	Value Added Tax	<ul style="list-style-type: none"> <li>Liaison with Insurance &amp; Risk Officer regarding preparation for introduction of Government's Making Tax Digital (MTD) process – due 1/10/19</li> </ul>
RE08	Payroll	<ul style="list-style-type: none"> <li>Monthly joiners and leavers checks</li> <li>Enhanced key control checks review being progressed</li> <li>(E&amp;Y) Key controls testing completed</li> </ul>
RE10	Estates & Valuations	<ul style="list-style-type: none"> <li>Liaison with Property &amp; Estates staff regarding set up and use of general fund property information in segregated area of QL system</li> </ul>
RE11	Corporate Property Management	<ul style="list-style-type: none"> <li>Liaison with Property &amp; Estates staff regarding progress of Property Investment Strategy / Fund. <b>Verbal update provided to A&amp;GC (2/19)</b></li> </ul>
CS03	Housing Finance	<ul style="list-style-type: none"> <li>(E&amp;Y) Key controls testing completed</li> </ul>
CS16	Housing Benefit (& Council Tax Reduction)	<ul style="list-style-type: none"> <li>Liaison with Finance, Procurement, Benefits and external audit in respect of arrangements for future Housing Benefit Subsidy Claim certification</li> <li>Monthly new claim calculation checks</li> <li>(E&amp;Y) Key controls testing completed</li> </ul>
CS17	Council Tax	<ul style="list-style-type: none"> <li>Annual test checks on CT precept calculations for Finance</li> <li>(E&amp;Y) Key controls testing completed</li> </ul>

CS18	NDR	<ul style="list-style-type: none"> <li>• (E&amp;Y) Key controls testing completed</li> <li>• Ongoing consideration of possible NDR fraud areas</li> </ul>
CS19	Income: Sundry Debtors	<ul style="list-style-type: none"> <li>• (E&amp;Y) Key controls testing completed</li> </ul>
CE06	Members' IT & Allowances	<ul style="list-style-type: none"> <li>• Liaison with ICT and Committees staff regarding implementation of ModernGov system for Members and Committees in May 2019</li> </ul>
CS12	Information Technology	<ul style="list-style-type: none"> <li>• Liaison with ICT staff in respect of Council cybersecurity risk assessment and security measures. (Council has had assistance of an LGA consultant)</li> <li>• Input into progress of required Information Asset Register</li> </ul>
CS13	Information Technology – Physical Security & Disaster Recovery	<ul style="list-style-type: none"> <li>• Liaison with ICT staff in respect of Council's ICT disaster recovery arrangements Advice received that Capita (WSCC) Power Place, Chichester data centre will close and move to Horsham (but not expected until 2022). PowerPlace houses Council servers for internet, email, etc. and also the back-up SAN</li> <li>• Liaison with Neighbourhood Services staff regarding the progress of Council Business Continuity Planning (BCP) arrangements and documentation</li> </ul>
CS15	PCI-DSS Compliance	<ul style="list-style-type: none"> <li>• Update on Council's electronic payment processing arrangements via Capita and AllPay</li> <li>• Further review of use of CallPay for card payments and Capita's Electronic Licence Management System (ELMS) portal by the Council</li> <li>• Consideration of PCI-DSS areas of non-compliance and past / current consultant and vendor advice on way forward</li> <li>• Senior management have been advised that there will need to be a major Council-wide project to consider future payment processing (e.g. use of one supplier rather than two), potential technology and/or customer service changes and compliance issues. Also requires agreement of Council's future Customer Access Strategy</li> </ul>
CP02	Information & Data Governance	<ul style="list-style-type: none"> <li>• Liaison with Group Head of Council Advice &amp; Monitoring Officer regarding future work on data protection</li> <li>• Review of pre-GDPR data audit information to update Information Asset Register</li> </ul>
PR01	Arun Improvement Programme	<ul style="list-style-type: none"> <li>• Liaison with ICT &amp; Service Improvement Manager in respect of AIP agenda items, review of system proposals, etc.</li> </ul>
PR04	EDRMS / Workflow	<ul style="list-style-type: none"> <li>• Liaison with ICT (e-Support) staff in respect of project to implement retention and deletion schedules (as agreed for GDPR compliance) into the Council's EDRMS</li> </ul>
PR09	Digital Arun Project	<ul style="list-style-type: none"> <li>• Ongoing liaison as to what the Council's digital strategy is to be and who is responsible – further discussions to be progressed by CMT</li> </ul>

		<ul style="list-style-type: none"> <li>Brief review of publicised initiatives from other Councils</li> </ul>
PR10	Northgate Upgrade	<ul style="list-style-type: none"> <li>Liaison with R&amp;B and ICT staff regarding commencement of project to upgrade the Northgate Revenues and Benefits system in 2019. This will include use of Cloud storage / workflow and introduction of Citizen Access functionality</li> </ul>
PR11	Office/365 Migration	<ul style="list-style-type: none"> <li>Liaison with ICT staff regarding Office/365 migration project</li> <li>Phase 1 (June 2019) is to convert desktop for staff from old, unsupported Office version</li> <li>Later Phases will include moving data to Cloud storage and will require security considerations as to access, labelling, GDPR requirements, etc.</li> </ul>
CP03 MS01	Corporate Governance Annual Governance Statement	<ul style="list-style-type: none"> <li>Annual review of compliance against the Council's local Code of Corporate Governance</li> <li>Discussion with Director of Place regarding future terms of reference for the Council's Governance &amp; Risk Group</li> <li>Identification of updates required to the Council's Code of Corporate Governance</li> <li>Preparation of the updated Annual Governance Statement and review by CMT</li> <li>Draft AGS published on website with draft Accounts (by 31 May) and provided to external audit <b>Reviewed by G&amp;R Group and CMT 5/19</b> <b>Reported to A&amp;GC 30/7/19</b></li> </ul>
MS03	RIPA	<ul style="list-style-type: none"> <li>Advice provided to service areas in respect of queries concerning possible use of surveillance, whether this would fall within the scope of the RIPA legislation and other options available</li> <li>Review of (Home Office) Code changes</li> <li>Review of changes from the Investigatory Powers Act 2016</li> <li>Updates to Council's RIPA Policy being drafted for legislative changes</li> </ul>
MS04	NFI	<ul style="list-style-type: none"> <li>The NFI Council Tax Single Person Discount reports were received in December 2018. These have been reviewed by Internal Audit and account queries referred to Revenues. (Old, redundant Electoral Roll entries have been referred to Elections)</li> <li>Reports from the main 2-yearly NFI exercise have been received and reviewed (except for those being reviewed by Benefits)</li> </ul>
CE05	Elections & Electoral Registration	<ul style="list-style-type: none"> <li>High-level observation / review of postal vote processing for May 2019 Elections performed</li> </ul>
CP04	Risk Management	<ul style="list-style-type: none"> <li>Monitoring of Strategic Risk Register (last updates provided to G&amp;R Group and A&amp;GC in 2018/19)</li> <li>Input to WSCC and Sussex Resilience Forum (SRF) risk registers for Brexit</li> <li><b>Updated SRR presented to A&amp;GC 15/11/18 / 14/2/19</b></li> </ul>
IN02	Fraud & Corruption	<ul style="list-style-type: none"> <li>Compilation of data for publication to meet</li> </ul>



CP05	Fraud & Corruption	<p>Government Data Transparency Code requirements</p> <ul style="list-style-type: none"> <li>• Compilation and submission of data for CIPFA annual fraud survey</li> <li>• Review and update of the Council's Anti-Fraud, Corruption &amp; Bribery Policy (due at A&amp;GC 11/19)</li> <li>• Preparation of Annual Counter-Fraud Report <b>Reported to A&amp;GC 30/7/19</b></li> </ul>
AD08	Audit Standards & Quality (PSIAS/QAIP)	<ul style="list-style-type: none"> <li>• Update of appropriate Arun internal audit documents</li> <li>• Preparation of self-assessment to be used in Arun's future EQA (due in 2019)</li> </ul>
ES01	Environmental Health	<ul style="list-style-type: none"> <li>• Liaison with ICT project manager in respect of the Tascomi system implementation – issues still to be addressed with the vendor</li> <li>• Liaison regarding the future linking of the Tascomi system to Capita payment processing</li> </ul>
ES06	Leisure Strategy / Management	<ul style="list-style-type: none"> <li>• A governance review of the leisure centre project is being completed</li> </ul>
CP06	Ethics	<ul style="list-style-type: none"> <li>• A review of ethical governance issues (as recommended by CIPFA) is being progressed</li> </ul>
CP07	Corporate Conduct	<ul style="list-style-type: none"> <li>• Liaison with HR Manager in respect of progress of revised Officer Code of Conduct and review of draft</li> </ul>
CP08	Travel & Subsistence	<ul style="list-style-type: none"> <li>• Analytical review of car use / mileage commenced at the request of the CEO</li> </ul>
CP13	Grants & External Funding	<ul style="list-style-type: none"> <li>• Ongoing liaison with Finance and Technical Services staff in respect of Disabled Facilities Grant (DFG) certification and proposals for pooling across the County</li> </ul>
CS02	Housing Repairs	<ul style="list-style-type: none"> <li>• Liaison with senior management on progress of investigation and agreed action plan to address the issues raised by the Regulator of Social Housing</li> <li>• Liaison regarding the progress of the current management restructure of the Housing department</li> </ul>
MS05	Contract Checking	<ul style="list-style-type: none"> <li>• Sample checks on contract compliance with Council Standing Orders and contract management in respect of financials</li> </ul>
LI02	Member Liaison / Committees	<ul style="list-style-type: none"> <li>• Review and update of past induction training for members of the Audit &amp; Governance Committee for the new Council post-May 2019 Elections (to be provided to Committee on 2/7/19)</li> </ul>
TP02	Officer Group Representation	<ul style="list-style-type: none"> <li>• Chairing meetings of the Information Security Group and liaison with members on progress</li> </ul>

## AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME – 2019/2020

<b>Date of Meeting: 30 July 2019</b>			
<b>Statement of Accounts</b>			
<b>Agenda Items</b>	<b>Subject</b>	<b>Lead Officer / Member</b>	<b>Comments</b>
1	Final Statement of Accounts 2018/19	Financial Services Manager	Draft version provided to external audit and posted on the Council's website at 31 May 2019
2	Annual Governance Statement	Internal Audit Manager	Draft version provided to external audit and posted on the Council's website at 31 May 2019
<b>External Audit</b>			
3	Response to E&Y on annual assurance letter regarding governance arrangements	Committee Chairman	Letter agreed with (2018/19) Chairman and sent to external audit in April
4	Audit Results Report – ISA 260	Ernst & Young	
5	Annual Audit Fee Letter	Ernst & Young	
<b>Governance Framework</b>			
6	Local Code of Corporate Governance	Internal Audit Manager	
<b>Treasury Management</b>			
7	Treasury Management Annual Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (11/9/19)
<b>Internal Audit</b>			
8	Annual Internal Audit Report & Opinion	Internal Audit Manager	
9	Update on the work of Internal Audit	Internal Audit Manager	
<b>Other Items</b>			
10	Annual Counter-Fraud Report	Internal Audit Manager	Any urgent updates can be provided at other meetings
<b>Work Programme</b>			
11	To agree the rolling work programme for 2019/2020	Internal Audit Manager	Updates, etc.

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2019/2020**

<b>Date of Meeting: 21 November 2019</b>			
<b>Statement of Accounts</b>			
<b>Agenda Items</b>	<b>Subject</b>	<b>Lead Officer / Member</b>	<b>Comments</b>
	There are no items currently planned for this meeting		
<b>External Audit</b>			
1	Annual Audit Letter	Ernst & Young	
2	Annual Certification Report 2018/19 (TBC)	Ernst & Young	Certification of the Housing Benefit Subsidy Claim
<b>Governance Framework</b>			
3	Updated Strategic Risk Register	Internal Audit Manager	
<b>Treasury Management</b>			
4	Treasury Management Mid-Year Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (8/1/20)
<b>Internal Audit</b>			
5	Update on the work of Internal Audit	Internal Audit Manager	
<b>Other Items</b>			
6	Update on the progress of the Council's Property Investment Fund (PIF)	Property & Estates Manager	Requested by Committee at 2/19 meeting
7	Update on the progress against recommendations from the Partnerships audit (as included in the Annual Governance Statement 2017/18)	Group Head of Policy	Requested by Committee at 2/19 meeting
<b>Work Programme</b>			
8	To agree the rolling work programme for 2019/2020	Internal Audit Manager	Updates, etc.

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2019/2020**

<b>Date of Meeting: 13 February 2020</b>			
<b>Statement of Accounts</b>			
<b>Agenda Items</b>	<b>Subject</b>	<b>Lead Officer / Member</b>	<b>Comments</b>
1	Accounting Policies for 2019/20 Accounts	Financial Services Manager	If CIPFA advise of any changed requirements, then an update will be provided at the July meeting
<b>External Audit</b>			
2	Audit Plan (and Progress Report)	Ernst & Young	Covering the audit of the 2019/20 Accounts
<b>Governance Framework</b>			
3	Capital Strategy	Financial Services Manager	For approval by Full Council (18/3/20)
<b>Treasury Management</b>			
4	Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (18/3/20)
<b>Internal Audit</b>			
5	Annual Internal Audit Plan	Internal Audit Manager	
6	Update on the work of Internal Audit	Internal Audit Manager	
<b>Other Items</b>			
7	Update on the progress of Council-owned companies	TBC	
<b>Work Programme</b>			
8	To agree the rolling work programme for 2019/2020	Internal Audit Manager	

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31/3/20

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2019/2020**

<b>Date of Meeting: xx July 2020 (TBC)</b>			
<b>Statement of Accounts</b>			
<b>Agenda Items</b>	<b>Subject</b>	<b>Lead Officer / Member</b>	<b>Comments</b>
1	Final Statement of Accounts 2019/20	Financial Services Manager	Draft version will be provided to external audit and posted on the Council's website at 31 May 2020
2	Annual Governance Statement	Internal Audit Manager	Draft version will be considered by Chairman / Vice Chairman in May, provided to external audit and posted on the Council's website at 31 May 2020
<b>External Audit</b>			
3	Response to E&Y on annual assurance letter regarding governance arrangements	Committee Chairman	Letter will be agreed with the Chairman and sent to external audit in April
4	Audit Results Report – ISA 260	Ernst & Young	
5	Annual Audit Fee Letter	Ernst & Young	
<b>Governance Framework</b>			
6	Local Code of Corporate Governance	Internal Audit Manager	
<b>Treasury Management</b>			
7	Treasury Management Annual Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (date tbc)
<b>Internal Audit</b>			
8	Annual Internal Audit Report & Opinion	Internal Audit Manager	
9	Update on the work of Internal Audit	Internal Audit Manager	
<b>Other Items</b>			
10	Annual Counter-Fraud Report	Internal Audit Manager	Any urgent updates can be provided at other meetings
11	Chairman's Annual Report To Council	Committee Chairman	To be presented to Full Council
12	Annual update on use of RIPA	Internal Audit	

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2019/2020**

	powers in the previous Municipal Year	Manager	
<b>Work Programme</b>			
13	To agree the rolling work programme for 2020/2021	Internal Audit Manager	Updates, etc.

**Other items to be considered in Work Programme:-**

**Independent Members' Remuneration Panel**

- Recruitment / appointments
- Proposals for / progress of review
- Report on review / proposals for change to be passed by A&GC to Full Council

**Property Investment Fund**

- Progress reports (Property & Estates Manager)

**Local Property Company**

- Progress reports, should it start operating (S151 Officer / Cabinet)

**Governance & Risk Group updates**

**Relevant policy reviews, updates, etc.**

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